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No. 00-

IN THE

Supreme Court of the United States

JAMES D. STOUT and SHIRLEY A. BROWN,

Petitioners,

v.

J.D. BYRIDER *a/k/a* DOCHERTY MOTORS INC.;
T & J ACCEPTANCE CORPORATION,
d/b/a CARNOW ACCEPTANCE COMPANY,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

JOHN T. MURRAY
Counsel of Record
SYLVIA M. ANTALIS
BARBARA QUINN SMITH
MURRAY & MURRAY CO., L.P.A.
Attorneys for Petitioners
P.O. Box 19
Sandusky, OH 44871-0019
(419) 624-3000

163617

Counsel Press LLC
(800) 274-3321 • (800) 359-6859

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QUESTIONS PRESENTED

May a court compel a party to a consumer contract to submit Truth in Lending Act claims arising from the contract to arbitration when doing so will effectively preclude the consumer from both vindicating his or her statutory rights and bringing the claim on behalf of a class of others similarly situated?

May a court deny class certification of a Truth in Lending Act claim arising from common omissions contained in standardized financing documents on the basis that the class representative's claim is not "typical" of those of the class due to differences in the type and intended use of the merchandise purchased?

May a court deny class certification on the basis that the representative is not "adequate" due to the representative's prior lawsuits against the defendant, because the representative has received a settlement offer from the defendant or because the representative has made a claim under the warranty which forms the basis of her Truth in Lending Act Claim?

May a court deny class certification of a Truth in Lending Act claim on the basis that individual reliance must be demonstrated, thereby precluding a finding that common issues predominate over individual issues?

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit is published at 228 F 3d 709. A copy of the opinion is included in Appendix A at 1a-14a.

The opinion of the District Court for the Northern District of Ohio concerning the arbitration issue is published at 50 F. Supp. 2d 733. A copy of the opinion is included in Appendix B at 15a-31a.

The opinion of the District Court for the Northern District of Ohio concerning class certification is unpublished. A copy of the opinion is included as Appendix C at 32a-44a.

STATEMENT OF JURISDICTION

The United States Court of Appeals for the Sixth Circuit issued its Opinion on September 8, 2000. This Petition for Writ of Certiorari is filed within 90 days of that decision, and the Court's jurisdiction is invoked pursuant to 28 U.S.C. §§ 1254(1) and 2106.

STATUTORY PROVISIONS INVOLVED

Federal Arbitration Act, 9 U.S.C. § 2:

Validity, irrevocability and enforcement of agreements to arbitrate

> A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

(July 30, 1947, c. 392, 61 Stat. 670.)

Truth in Lending Act, 15 U.S.C. § 1640

Civil liability

(a) Individual or class action for damages; amount of award; factors determining amount of award.

Except as otherwise provided in this section, any creditor who fails to comply with any requirement imposed under this part, including any requirement under section 1635 of this title, or part D or E of this subchapter with respect to any person is liable to such person in an amount equal to the sum of —

(1) any actual damage sustained by such person as a result of the failure.

STATEMENT OF THE CASE

The facts of this case raise compelling questions concerning the validity of arbitration agreements inserted in consumer "adhesion" contracts and the propriety of class certification in consumer fraud litigation.

Respondent J.D. Byrider, a.k.a. Docherty Motors, Inc. ("J.D. Byrider") is engaged in the business of selling used automobiles to consumers throughout the State of Ohio. Its marketing is directed toward individuals who have poor credit histories. Each of the automobiles it offers for sale is priced at $7,000, regardless of the make, model, age or condition of the car.

Respondent T&J Acceptance Corporation, d.b.a. CarNow Acceptance Corporation ("CNAC") provides financing to individuals who purchase automobiles from J.D. Byrider. CNAC maintains an office in each J.D. Byrider dealership, and one employee at each location is given responsibility for closing loan transactions. That employee is provided with a "deal jacket" containing a myriad of standardized forms which must by signed by the consumer in order to complete the loan transaction.

Through discovery conducted in the instant matter, Petitioners discovered that each consumer is surreptitiously videotaped while signing the loan documents.

Included among the documents presented to the consumer for signature is an arbitration agreement. Two different agreements have been used by Respondents since 1995. One, signed by Petitioner Brown, provides for arbitration through the Better Business Bureau, is silent as to which party shall bear the costs of arbitration, and provides for arbitration of all claims other than those related to the customer's failure to make timely payments under the financing agreement. Petitioner Brown's agreement is attached as Appendix D. The other, signed by Petitioner Stout, requires arbitration in accordance with the rules of the American Arbitration Association, prohibits class action claims, and requires that each party shall pay their own expenses and bear arbitration costs equally. Petitioner Stout's agreement is attached as Appendix E. Videotapes reveal that CNAC employees represented the arbitration agreement as a "free benefit", designed to protect consumers in the event Respondents attempted to raise the monthly payment above the amount specified in the loan agreement.

The loan documentation also includes a provision through which the consumer may purchase a warranty at a cost of $895. This provision is automatically generated by computer, and is presented to the consumer as a requirement that is included in the cost of financing the vehicle. The warranty is imposed upon all consumers, and, contrary to representations made at the time of sale, the cost of the warranty is financed along with the cost of the vehicle.

Petitioners James D. Stout and Shirley A. Brown purchased automobiles from J.D. Byrider in 1998. Both financed those purchases through CNAC, both signed an arbitration agreement, and both financed the warranty mandated by Respondents in addition to financing the cost of the automobile.

Petitioners brought this suit in the United States District Court for the Northern District of Ohio, puruant to 28 U.S.C. § 1331, individually and on behalf of a class of individuals who had purchased an automobile from Docherty Motors and financed that automobile through CNAC. Petitioners alleged violations of the Truth In Lending Act, 15 U.S.C. § 1601, *et seq.*, ("TILA") the Ohio Consumer Sales Practices Act, R.C. 1345.01, *et seq.* and common law fraud[1]. The district court denied Petitioner's motion for class certification as to all claims, and granted Respondent's request to compel arbitration of Petitioners' individual claims.

Petitioners appealed this ruling to the United States Court of Appeals for the Sixth Circuit. That court upheld the district court's decision, finding that the district court properly compelled arbitration and denied class certification. Specifically, the court of appeals held that, because the arbitration agreement specified the organization through which the arbitration was to be conducted, there was no danger that Petitioners would be unable to vindicate their statutory rights. The court of appeals also declined to find the agreement unconscionable.

With respect to the class certification issue, the court held that Petitioners' claims were atypical of the class and that they were inadequate representatives under Fed. Civ. R. 23(a), because their interests were antagonistic to those of the class. According to the court of appeals, this antagonism was evidenced by the fact that (1) Petitioner Stout voluntarily dismissed a related lawsuit filed against Respondents in state court (2) Petitioner Brown made a claim under the warranty at issue herein and (3) Respondents made an individual settlement offer to Petitioners at a pre-trial conference held in the district court. The court of appeals also found that Petitioners' claims for fraud and violation of TILA required proof of reliance, an element that could only be demonstrated though individual

1. Petitioners do not appeal the denial of class certification of their claims for common law fraud and violations of Ohio's Consumer Sales Practices Act.

examination of "what documents the customer reviewed and in what manner, what representations Defendants made to each customer, and whether the customer selected the extended service agreement". App. A at 14a.

REASONS FOR GRANTING THE WRIT

With respect to the arbitration issue, the facts of this case mirror those at issue in *Randolph v. Green Tree Financial Corp.*, 178 F.3d 1149 (11th Cir. 1999), *cert. granted,* 120 S. Ct. 1552 (2000). The opinion of the court of appeals below is in direct conflict with that of the Court of Appeals for the Eleventh Circuit in *Randolph*, as well as the Ohio Supreme Court's opinion in *Williams v. Aetna Financial Company*, 83 Ohio St. 3d 464 (1998), *cert. denied*, 119 S. Ct. 1357 (1999).

The arbitration provisions at issue herein are similar to those imposed upon thousands of consumers every day. Almost universally, the consumer who agrees to arbitrate has no understanding of how the agreement will impact upon his or her ability to pursue statutory claims, such as those that arise out of the seller's violation of TILA. Damages for violations of TILA tend to be very small, rendering an expensive arbitration impractical. In some cases, the potential for recovery may be so small that a class action is the only way in which a violation of the statute can be effectively both redressed and deterred.

The reported opinion of the court of appeals will preclude consumers from obtaining any meaningful remedy under TILA. In addition to requiring arbitration in situations in which it is manifestly unfair to do so, the court of appeals' opinion renders class certification of consumer-based claims effectively impossible.

The class certification issues raised herein can be found at the core of virtually every consumer class action. Petitioners have alleged that Respondents violated TILA by omitting required information in its standardized form loan agreements. As in any consumer class action, the claims of the class members

are based upon similar facts and legal theories, but arose through a series of individual transactions between Respondents and the class members. If allowed to stand, the court of appeals opinion will shift focus of class action determination away from the common facts and legal issues involved and require scrutiny of the nuances of the individual transactions through which the consumers' claims arise.

I.

An arbitration agreement which does not disclose the dollar amount of fees the consumer must pay in order to submit statutory claims to arbitration or which denies the consumer the right to bring a class action fails to provide the minimum guarantees necessary to ensure that the consumer will be able to vindicate his or her statutory rights.

The arbitration agreements at issue herein fail to protect Petitioners and other consumers with claims of limited monetary values from being exposed to exorbitant arbitration fees, fees which would discourage them from exercising their rights under TILA. An arbitration agreement which denies a consumer the right to bring a class action to pursue his or her claims has a similar chilling effect. The Sixth Circuit Court of Appeals completely disregarded the devastating effect the arbitration agreement would have upon Petitioners' ability to pursue statutory claims, and erred as a matter of law in upholding the decision of the district court.

There is no question that the Federal Arbitration Act, 9 U.S.C. § 1, *et seq.* ("FAA") reflects a policy favoring enforcement of valid agreements to arbitrate. *See Mastrobuona v. Shearson Lehman Hutton, Inc.*, 514 U.S. 52, 62 (1995). However, when enforcement of the agreement will result in a "prospective waiver of a party's right to pursue statutory remedies", the agreement is against public policy and void. *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 637 (1995). An arbitration agreement is therefore unenforceable if it fails to provide some minimum protection

to insure that a plaintiff's ability to pursue statutory claims will not be eradicated. *Randolph*, 178 F.3d at 1158.

The court of appeals incorrectly found the minimum safeguards to be present where the arbitration agreement "clearly specif[ies] the established organization whose rules will govern the arbitration." App. A at 9a. This finding in essence begs the question — if one starts with the premise that an arbitration agreement is unenforceable when it imposes hefty filing fees so as to render pursuit of the claim impracticable, it is difficult to imagine how that situation is remedied simply by specifying the organization through which arbitration is to be conducted to a consumer who is certainly unaware of that organization's fee schedule.

The Court of Appeals for the Eleventh Circuit was absolutely correct in refusing to enforce an arbitration agreement substantially similar to the one at issue here. In *Randolph*, the court looked for the necessary "minimum guarantees" in the following:

> The arbitration clause in this case raises serious concerns with respect to filing fees, arbitrators' costs and other arbitration expenses that may curtail or bar a plaintiff's access to the arbitral forum. . . . This clause says nothing about the payment of filing fees or the apportionment of the costs of arbitration. It neither assigns an initial responsibility for filing fees or arbitrators' costs, nor provides for a waiver in cases of financial hardship. It does not say whether consumers, if they prevail, will nevertheless be saddled with fees and costs in excess of any award. It does not say whether the rules of the American Arbitration Association, which provide at least some guidelines concerning filing fees and arbitration costs, apply to the proceeding, whether some other set of rules applies, or whether the parties must negotiate their own set of rules.

Id. at 1158.

Of all these criteria, the only one present in the subject arbitration agreements is the latter. The arbitration provision signed by Petitioner Brown is completely silent as to payment of fees. The version signed by Petitioner Stout requires each party to pay their own expenses, and bear equally the arbitrator's fees. Neither agreement discloses the amount of fees that will be incurred, nor provides for a waiver of fees in case of financial hardship. Furthermore, the agreements do not insure that a consumer who obtains a relatively small award will not be required to pay fees in excess of that award.

It is apparent that an arbitration provision that merely specifies the agency through which arbitration is to be conducted but does not disclose the fees that will be incurred nor insure those fees will not exceed the award does not provide the minimum safeguards necessary to insure that a plaintiff's statutory rights will be protected.

As the court of appeals below correctly noted, one factor which a court must consider in determining whether to compel arbitration is whether Congress intended the claims to be subject to arbitration. *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20 (1991). Despite the FAA's policy of favoring enforcement of arbitration agreements, an arbitration agreement will not be enforced where "Congress itself has evinced an intention to preclude a waiver of judicial remedies for the statutory rights at issue." *Gilmer*, 500 U.S. at 26, citing *Mitsubishi Motors*, 473 U.S. at 628.

The arbitration provision signed by Petitioner Stout provides that "no class action arbitration may be ordered under this provision". Both arbitration agreements at issue herein effectively preclude maintenance of a class action by forcing consumers to conduct an arbitration of their individual claims. This consequence of the arbitration provision clearly runs afoul of the stated policy behind TILA.

The class action device is vital to those who wish to prosecute claims with the potential for small monetary recoveries. As this Court has recognized:

> The policy at the very core of the class action mechanism is to overcome the problem that small recoveries do not provide the incentive for any individual to bring a solo action prosecuting his or her rights. A class action solves this problem by aggregating the relatively paltry potential recoveries into something worth someone's . . . labor.

Amchem Products, Inc. v. Windsor, 521 U.S. 591, 617 (1997). This policy is particularly relevant to claims under TILA, where it is clear that Congress intended class actions to be used as a device to insure voluntary compliance with the provisions of the Act.

An example of congressional intent to encourage class action litigation under TILA can be found in the 1974 amendments to the Act, in which Congress placed a cap on damages that could be awarded in class actions. The legislative history indicates that the reason for these amendments was to encourage class action litigation. The Court of Appeals for the Sixth Circuit has previously recognized that

> [t]he legislative history of the 1974 amendment reveals that Congress acted to counter the manifest judicial unwillingness to impose class liability under the Act. Indeed, it appears that Congress felt constrained to encourage class actions in the truth-in-lending context because of the apparent inadequacy of the Federal Trade Commission's enforcement resources and because of a continuing problem of minimal voluntary compliance with the Act on the part of creditors.

Watkins v. Simmons and Clark, Inc., 618 F.2d 398, 400 (6th Cir. 1980). Congressional desire to encourage class actions under

TILA will be frustrated if those claims are subject to arbitration. This principle has recently been recognized by a number of federal courts. *See, e.g., Knepp v. Credit Acceptance Corporation*, 229 B.R. 821 (N.D. Ala. 1999); *Baron v. Best Buy Co., Inc.*, 75 F. Supp. 2d 1368, 1370 (S.D. Fla. 1999); *Lozado v. Dale Baker Oldsmobile, Inc.*, 91 F. Supp. 2d 1087 (W.D. Mich. 2000).

II.

An arbitration provision contained in a consumer adhesion contract is against public policy and unenforceable as a matter of law.

Under the FAA, an agreement to arbitrate is enforceable except upon "such grounds as exist at law or in equity for the revocation of any contract." This Court has held that state law governing contracts is applicable to arbitration agreements if that law arose to govern issues concerning the validity, revocability or enforceability of contracts generally. *Doctor's Assoc., Inc. v. Casarotto*, 517 U.S. 681, 684 (1996). By contrast, state laws that specifically pertain to arbitration agreements are subject to pre-emption by the FAA. *Id.*

The Ohio Supreme Court has held that arbitration agreements made under circumstances similar to those present here are unconscionable and therefore unenforceable. In *Williams v. Aetna Financial Co.*, 83 Ohio St. 3d 464 (1998), *cert. denied*, 119 S. Ct. 1357 (1999), the court refused to enforce an arbitration provision contained in a consumer loan agreement where the consumer, after agreeing to contract for home improvements, was led by the contractor to a finance company that had a prior arrangement with the contractor whereby the finance company would provide high interest loans to customers of the contractor. Examining the arbitration provision in the light of R.C. § 2711.01(A), a statute identical to 9 U.S.C. § 2, the court found that principles of equity precluded enforcement of the arbitration provision.

The court of appeals below first found *Williams* inapplicable because it believed that the case was decided based upon the Ohio Arbitration Act. This finding was clearly in error. While the court cited the Ohio Arbitration Act in reaching its decision, the principles of equity upon which the court relied to find the arbitration agreement unenforceable apply to contracts generally. Therefore, pursuant to this Court's decision in *Doctor's Associate's, Inc. v. Casarotto, Williams* is applicable to this case, and demands that the arbitration agreement be found unconscionable.

As the Court of Appeals recognized, in order for a contract to be unconscionable under Ohio law, it must be one-sided, deny the less advantaged party meaningful choice in accepting the terms of the contract, and involve a situation such that the less advantaged party cannot obtain their desired product or service except by acquiescing to the form contract.

After having found *Williams* inapplicable, the Court of Appeals held that *Williams* would not preclude enforcement of this agreement. In doing so the court noted that there was no evidence that Respondents would have refused to sell the vehicles if Petitioners had refused to sign the arbitration agreements, nor any evidence that petitioners could only purchase similar vehicles by agreeing to the arbitration provision.

Contrary to the court of appeals' opinion, there was sufficient evidence from which the district court should have concluded that the agreement was unconscionable. The arbitration agreement signed by Petitioner Stout contains a clause which exempts "claims relating to repossession or replevin of the vehicle" and "claims seeking total damages under $10,000". The agreement signed by Petitioner Brown exempts claims "by the dealer that Purchaser(s) have filed to make payments on a timely basis in compliance with the contracts".

These exceptions operate to exempt from arbitration virtually all claims that J.D. Byrider may bring against its

customers. Petitioner Brown's agreement does so specifically; Petitioner Stout's does so implicitly. Claims related to "repossession or replevin" of the vehicle are likely to be those asserted by the dealer. Furthermore, a likely consequence of the $10,000 limitation is that the consumer will be foreclosed from bringing any claim pursuant to which he or she is entitled to attorney fees or punitive damages in a court of law, including claims based upon consumer protection statutes. In contrast, the only claims the dealer is likely have against the consumer are those related to nonpayment under the financing agreement, claims which, under either version of the arbitration agreement, J.D. Byrider is free to bring in court. The agreement is blatantly one-sided, and the court of appeals erred in failing to recognize this.

Moreover, the evidence below indicated that every customer, without exception, signed the arbitration agreement. This strongly indicates that Petitioners were denied meaningful choice in accepting the terms of the contract, and amply demonstrates the superior bargaining position in which J.D. Byrider placed itself. *See, e.g., Preston v. Kruezer*, 641 F. Supp. 1163, 1172 (N.D. Ill. 1986) ("In many cases the meaningfulness of the choice is negated by a gross inequality of bargaining powers").

In relying upon a lack of any affirmative evidence demonstrating that Petitioners could not have purchased similar vehicles without agreeing to an arbitration provision, the court of appeals ignored the reality of today's marketplace, a reality which has been recognized by other federal courts:

> In today's market it is virtually impossible to purchase a new or used automobile without the sales contract containing an arbitration provision. . . . [C]onsumers are faced with an unrelenting choice today: "The reality is that these provisions appear with increasing frequency in today's marketplace. As a result, consumers find it increasingly difficult

> to acquire basic goods and services without forfeiting their rights to try before a jury the common law claims that may accrue to them. Entire segments of the market for certain goods and services, such as automobile sales and their attendant necessary financing, are being closed to consumers who are unwilling to forfeit the rights guaranteed to them by the federal and state constitutions. To sanction this market closure would essentially effect the repeal of the Seventh Amendment by the concurrence of judicial with legislative fiat."

Knepp v. Credit Acceptance Corp., 229 B.R. 82, 837-38 (N.D. Ala 1999), citing *Allstar Homes, Inc. v. Waters*, 711 So. 2d 924, 933 (Ala. 1997) (Cook, J. concurring).

The agreements at issue fall squarely within the class of contracts which are unconscionable under Ohio law. The district court erred as a matter of law in compelling arbitration under these circumstances.

III.

Civ. R. 23(a)(3)'s requirement that the representative plaintiff's claims be "typical" of those of the class is satisfied when the representative's claims arise from the same course of conduct by the defendant and are based upon the same legal theories as those of the class.

The court of appeals below upheld the district court's finding that Petitioners' claims were not typical of those of the class for purposes of Fed. Civ. R. 23(a)(3) because of differences

> between Plaintiffs and ostensible class members ranging from the type of car, the degree of repairs necessitated, the response to those repairs, the purpose for which the car was purchased, the individual circumstances and transaction surrounding each purchase including each class member's understanding of the terms and conditions

> of their purchase agreements, and the extent of injury suffered.

App. A at 12a. The court of appeals abused its discretion in reaching this conclusion.

Under Rule 23(a)(3), typicality is established if the claims of the putative class members arise from the same event, practice, or course of conduct and are based upon the same legal theories. *Jenkins v. Raymark Industries, Inc.*, 782 F.2d 468, 472 (5th Cir. 1986); *In re Revco Sec. Litig.*, 142 F.R.D. 659, 666 (N.D. Ohio 1992). "The typicality requirement is said to limit the class claims to those fairly encompassed by the named plaintiff's claims", *General Telephone Co. v. EEOC*, 466 U.S. 318, 330 (1980), and does not require that the representative's circumstances be identical to that of each class member. *Forbush v. J.C. Penney Co.*, 994 F.2d 1101, 1006 (5th Cir. 1993). Rather, Rule 23(a)(3) is designed to "ensure that the claims of the representative party are similar enough to the claims of the class so that the representative adequately will represent all members of the class." *Hiatt v. County of Adams, Ohio*, 155 F.R.D. 605 (S.D. Ohio 1994).

The evidence below demonstrates that each putative class member was presented with standardized, pre-printed contract forms. The experience of each and every customer was virtually identical; the exact same forms were provided in the exact same order with an identical description of each. Differences in the model of vehicle purchased, the amount of repairs required, Respondent's "response" to those repairs or the purpose for which a particular class member purchased the vehicle have absolutely no bearing upon Petitioners' claims under TILA. The preprinted forms either evidence a violation or they do not; proof of those violations will not require evidence even remotely related to the factors enumerated by the court of appeals. Furthermore, as each class member paid the same amount for the warranty, there will be little if any difference in the "degree of injury" suffered.

IV.

A class representative is "adequate" for purposes of Civ. R. 23(a)(4) when there is no antagonism between the representative's claims and those of the class.

Similarly, the court of appeals abused its discretion when it upheld the district court's finding that Petitioners were not adequate representatives of the class under Fed. Civ. R. 23(a)(4). In reaching its decision, the court of appeals relied upon the district court's finding that (1) Petitioner Stout had filed and voluntarily dismissed a state court action against respondents; (2) Petitioner Brown received an engine replacement under the warranty at issue herein; and (3) Respondents offered to refund the purchase price of Petitioner Stout's vehicle.

A representative plaintiff meets the requirements of Rule 23(a)(4) if he or she "will fairly and adequately protect the interest of the class." Fed. Civ. R. 23(a)(4). The requirement is met as long as there is no antagonism between the representative's claims and those of the class. *Cross v. National Trust Life Ins. Co.*, 553 F.2d 1026, 1031 (6th Cir. 1977).

The district court found that "[i]nterests are antagonistic when there is evidence that the representative plaintiffs appear unable to 'vigorously prosecute the interests of the class.' " App. C at 40a, citing *In re American Medical Systems,* 75 F.3d 1069, 1083 (6th Cir. 1993).

Courts generally acknowledge that employment of competent counsel assures that the claims of absent class members will be vigorously prosecuted. *Berland v. Makc*, 48 F.R.D. 121, 127 (S.D.N.Y. 1969); *South Carolina National Bank v. Stone*, 139 F.R.D. 325, 330-331 (D. So. Carolina 1991). The district court found Petitioners' counsel to be competent. App. C at 40a.

There is no evidence in the record below that the named Plaintiffs are unable to vigorously prosecute the interests of the class. In his state court action, Petitioner Stout did not assert a

TILA claim. There is absolutely no basis in the record for finding that lawsuit, which was dismissed prior to the filing of the instant matter, created a conflict of interest. Likewise, the fact that Petitioner Brown received an engine replacement under the warranty has no bearing upon her ability to prosecute a TILA claim on behalf of the class.

More troubling is the fact that the court of appeals relied upon a settlement offer received by Petitioner Stout at a pre-trial hearing as evidence that he was an inadequate representative. If this reasoning is accepted, virtually any defendant can defeat class certification by making an unsolicited settlement offer to the named Plaintiff.

In sum, there is simply no evidence in the record that Petitioners are unable to vigorously prosecute this action on behalf of the class, and the court of appeals abused its discretion in finding to the contrary.

V.

A finding that common issues predominate over issues effecting only individual class members cannot be precluded simply on the basis that the claims of the class arose through a series of individual transactions between class members and the defendant.

The court of appeals agreed with the district court that "the factual core of the case was whether each putative class member relied upon false representations or failures to disclose, and if so, what damages were proximately caused by that reliance." App. A. at 14a. For this reason, the court of appeals held that Petitioners' claims failed to meet Civ. R. 23(b)'s predominance requirement.

The court of appeals erred as a matter of law in holding that reliance is an element of a TILA claim. Moreover, even if Petitioners were required to demonstrate reliance in order to succeed on their TILA claims, that reliance may be easily demonstrated on a class-wide basis by allowing reliance to be inferred.

Civ. R. 23(b)(3) requires a finding that questions of law or fact common to class members "predominate" over those affecting only individual members. "Predominance is usually decided on the question of liability, 'and if the liability issue is common to the class, common questions are held to predominate over individual questions.' " *In re Revco Securities Litig.*, 142 F.R.D. at 662, quoting *Fry v. UAL Corp.*, 136 F.R.D. 626, 637 (N.D. Ill. 1991). This is particularly true when the focus of a plaintiffs' proof is based upon the conduct of the defendant, or where the claims arise from standardized documents. *Peterson v. H&R Block Tax Services, Inc.*, 174 F.R.D. 78 (N.D. Ill. 1997).

In order to succeed on their TILA claim, Petitioners must demonstrate that (1) Respondents were required by TILA to disclose that the cost of the warranty is a part of the "finance charge" associated with the credit transaction (2) Respondents failed to make this disclosure; and (3) Petitioners incurred damages as a result of Respondents' violation of the statute. The first element will be resolved as a matter of law; the second will be demonstrated through the standardized loan documentation.

The third element is easily demonstrated[2]. "[P]roof by the consumer . . . that the lender materially understated the applicable finance charge entitles the consumer to actual damages measured by the amount of the undisclosed finance charges, without requiring the consumer to further prove her detrimental reliance on the disclosure statement." *Russell v. Fidelity Consumer Discount Company*, 72 B.R. 855 (E.D. Pa. 1987). A number of federal courts are in agreement that there is no requirement that a plaintiff demonstrate reliance in order to succeed upon a TILA claim. *Jones v. Bill Heard Chevrolet, Inc.*, 212 F.3d 1356, 1363 (11th Cir. 2000) ("The basis of TILA liability is . . . failure to disclose information required to be

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2. TILA provides for both "actual" and "statutory" damages. Pursuant to 15 U.S.C. § 1640, statutory damages are not available in a class action.

disclosed; there is no requirement that" plaintiff demonstrate reliance. (quoting *Charles v. Krauss Co.*, 572 F.2d 544, 546 (5th Cir. 1978)); *Aidel v. Chase Federal Sav. & Loan Assoc.*, 630 F. Supp. 131 (S.D. Fla. 1986), *aff'd*, 810 F.2d 1051 (11th Cir. 1987)). In this case, the cost of the warranty and the term of the financing agreement are the same for each and every class member.

Petitioners can thus prove the necessary elements of their TILA claim by reference to both Respondents' uniform conduct and the standardized forms given to each class member. Individual issues, if any, will be minimal.

Those courts which have required proof of reliance in order to recover actual damages under the statute have required that the plaintiff demonstrate that had the disclosure statement been accurate, he or she would have sought, and obtained, a lower price. *See, e.g., Peters v. Jim Lupient Oldsmobile*, 220 F.3d 915 (8th Cir. 2000). This requirement is often cited by defendants intent upon defeating class certification, despite the statute's clear preference for class actions.

However, even if it is accepted that Petitioners must prove reliance in order to recover actual damages, this proof can be made on a class-wide basis by inferring reliance on the omission from the fact that class members entered into the transaction. This Court has previously recognized this method of demonstrating reliance in the securities context, *Affiliated Ute Citizens v. United States*, 406 U.S. 128 (1972). A number of state courts faced with the issue in consumer fraud class actions have reached the same conclusion. *See, e.g., Vasquez v. Superior Court*, 4 Cal. 3d 800 (1971); *Collins v. Rocha*, 7 Cal. 3d 232 (1972); *Occidental Land, Inc. v. Superior Court*, 18 Cal. 3d 355 (1976); *Wilmer v. Sunset Life Ins. Co.*, 78 Cal. App. 4th (2000); *Skalbania v. Simmons*, 443 N.E. 2d 352 (Indiana 1982); *Varacallo v. Massachusetts Mutual Life Ins. Co.*, 332 N.J. Super. 31 (2000); *Stellema v. Vantage Press, Inc.*, 492 N.Y.S. 2d 390 (N.Y. App. 1985); *Ackerman v. Price Waterhouse*, 683 N.Y.S.

2d 179 (N.Y. App. 1998); *Adams v. Little Mo. Materials Ass'n.*, 143 N.W. 2d 659 (N.D. 1966); *Cope v. Metropolitan Life Ins. Co.*, 82 Ohio St. 3d 426 (1998); *Baughmann v. State Farm Mut. Auto Ins. Co.*, 88 Ohio St. 3d 480 (2000); *Pickett v. Holland America Line - Westours, Inc.*, 100 Wn. App. 901 (2000).

In *Affiliated Ute Citizens*, this Court permitted plaintiffs in a securities fraud action brought pursuant to Rule 10b-5 (17 C.F.R. 240.10b5) to demonstrate reliance on omissions by inference. The Court stated:

> Under the circumstances of this case, involving primarily a failure to disclose, positive proof of reliance is not a prerequisite to recovery. All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered them important in the making of this decision. . . . This obligation to disclose an this withholding of a material fact establish the requisite element of causation in fact.

Id. at 154.

The reasons for permitting reliance to be proven by inference in the securities context are just as valid for allowing it to be so proven in a TILA action. Both the Securities Exchange Act and TILA are designed to guard against a failure to disclose information material to a financial transaction. In both contexts, it is reasonable to assume that the information was withheld for the very reason that it was material to the transaction, and, had the consumer been aware of the information withheld, he or she would not have entered into the transaction.

This principle was recognized by the Sixth Circuit in *Michaels Building Co. v. Ameritrust Co., N.A.*, 848 F.2d 674 (6th Cir. 1988), when the court permitted an individual

plaintiff to prove reliance via inference in connection with fraud claim resulting from a loan transaction. The court therein stated:

> Noting that reliance is an essential element of a claim of fraud . . . [d]efendants . . . urge that plaintiffs did not rely on the alleged misrepresentations of defendants since plaintiffs testified that they did not "shop around" for a lower interest rate. We find this argument to be without merit . . . [S]ince plaintiffs knew that defendants' loan statements offered a certain prime rate (which allegedly misstated the true prime rate), this information, it must be inferred, influenced plaintiffs' decision to borrow money from those defendant banks.

The Ohio Supreme Court has also adopted this method of proof for common law fraud claims based upon omissions. In *Cope*, the court permitted reliance upon what were alleged to be common omissions contained in standardized form documents to be demonstrated by inference. In doing so, the court recognized that when it is proven that a defendant was required to disclose information in a standardized form document and failed to do so, an inference or presumption of reliance will arise as to the entire class. *Cope*, 82 Ohio St.3d at 436. (citing *Davis v. Southern Bell Tel. & Tel.*, 158 F.R.D. 173, 176-77 (S.D. Fla. 1994); *Murray v. Sevier*, 156 F.R.D. 235, 249, n.11 (D. Kan. 1994); *Heastie v. Community Bank of Greater Peoria*, 125 F.R.D. 669, 678 (N.D. Ill. 1989).

The need to demonstrate reliance should not preclude a finding that common issues predominate over individual issues.

CONCLUSION

The court of appeals' opinion will have a devastating effect upon consumers who wish to litigate statutory claims through a class action. The arbitration agreement at issue herein was thrust upon a group of people who likely had no understanding of its implications, and who certainly had no knowledge that arbitration is a far more expensive undertaking than pursuing claims in a judicial forum. In addition, if the court of appeals decision is upheld, class certification of TILA claims will become a thing of the past.

The court of appeals' opinion on class certification has implications that extend beyond TILA claims. The opinion will render class certification impossible in any consumer action brought upon a claim which requires proof of reliance. That result is simply untenable.

For the foregoing reasons, the Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

JOHN T. MURRAY
Counsel of Record
SYLVIA M. ANTALIS
BARBARA QUINN SMITH
MURRAY & MURRAY CO., L.P.A.
Attorneys for Petitioners
P.O. Box 19
Sandusky, OH 44871-0019
(419) 624-3000

APPENDIX

APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT DATED AND FILED SEPTEMBER 8, 2000, AS CORRECTED OCTOBER 26, 2000

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

No. 99-3854

JAMES D. STOUT; SHIRLEY A. BROWN,

Plaintiffs-Appellants,

v.

J.D. BYRIDER, a/k/a Docherty Motors, Inc.; T & J ACCEPTANCE CORPORATION, d/b/a Carnow Acceptance Company,

Defendants-Appellees.

Appeal from the United States District Court
for the Northern District of Ohio at Akron.
No. 98-02830 — James S. Gwin, District Judge.

Argued: June 23, 2000

Decided and Filed: September 8, 2000

Before: SILER and CLAY, Circuit Judges;
STAFFORD, District Judge.*

* * *

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* The Honorable William Stafford, Senior United States District Judge for the Northern District of Florida, sitting by designation.

Appendix A

OPINION

CLAY, Circuit Judge. Plaintiffs James D. Stout and Shirley A. Brown appeal the denial of their motion for class certification and dismissal of this action for fraud and violations of the Ohio Consumer Sales Practices Act and the federal Truth in Lending Act arising from Plaintiffs' purchases of used motor vehicles from Defendants J.D. Byrider, a.k.a. Docherty Motors, Inc., and T & J Acceptance Corporation. For the following reasons, we **AFFIRM**.

I.

Docherty Motors is a closely held Ohio corporation which has sold used motor vehicles since 1995, and which advertises itself as providing financing to consumers with imperfect credit records. The corporation owns three J.D. Byrider franchises in northern Ohio. Each franchise has a manager who reports to Docherty Motors' executive vice-president.

Each franchise has a service department which performs repairs only on vehicles purchased at J.D. Byrider; the service department does both warranty and nonwarranty work. Prior to sale, each vehicle is inspected by Docherty Motors employees who perform a "safety check;" Docherty Motors also permits customers to take vehicles for a pre-purchase inspection at a mechanic of their choice.

Docherty Motors offers financing through T & J Acceptance Corporation to those individuals who may not

qualify for traditional financing such as banks or credit unions. T & J owns three CarNow Acceptance Corporation ("CNAC") franchises, located at each J.D. Byrider dealership. CNAC provides standardized guidelines for the procedure for closing a sale and loan. Byrider personnel are trained to handle sales and financing transactions in a uniform manner. A CNAC representative handles the closing on each customer's purchase, which includes individual presentation of a power of attorney for vehicle registration and license, federal odometer statement, Ohio temporary registration application, Best Extended Service Agreement (if applicable), Buyer's Order, Retail Installment Contract and Security Agreement, insurance responsibility form, Buyer's guide, check list, and customer survey questionnaire. Closings at the Sandusky dealership are videotaped by a wall mounted camera for training and quality assurance purposes. The CNAC representative provides a brief explanation of each document, answers questions about the documents, and gives buyers an opportunity to review the paperwork prior to signing. After late 1997, customers were also presented with arbitration agreements which are separate, written agreements in normal and bold-faced type.

Vehicles purchased at Docherty Motors come with a limited warranty for three months or 3,000 miles. Customers may purchase an extended service agreement which covers the same items as the limited warranty, or they may decline it. There is no financial incentive for Defendants' employees if a customer purchases an extended service agreement. The extended service agreement is presented at the same time as the other documents as part of closing.

Appendix A

The videotapes of Plaintiffs' transactions show that the documents were individually presented to Plaintiffs for their review and signature. The CNAC representative provided a hypothetical example to Stout of how the arbitration agreement might work. Brown also reviewed the arbitration agreement prior to signing. Under Brown's agreement, the only dispute not subject to arbitration is a claim by Defendants that she failed to make payments on a timely basis in compliance with the contracts; her arbitration is to be conducted through the Better Business Bureau. Under Stout's agreement, the only claims not subject to arbitration are claims under $10,000, and claims relating to repossession and replevin of the vehicle; his arbitration is to be conducted through the American Arbitration Association. Both Plaintiffs purchased extended service agreements lasting eighteen months or 18,000 miles for $895. Brown utilized the extended service agreement for replacing the engine in a car she had purchased.

On December 7, 1998, Plaintiffs James D. Stout and Shirley A. Brown, individually and on behalf of all similarly situated individuals, filed a class action complaint in the United States District Court for the Northern District of Ohio against J.D. Byrider, a.k.a. Docherty Motors, Inc., and T & J Acceptance Corporations, d.b.a. CarNow Acceptance Company. The complaint alleged violations of the Truth in Lending Act ("TILA"), 15 U.S.C. § 1601, the Ohio Consumer Sales Practices Act ("OCSPA"), Ohio Rev. Code § 1345.01, and common law fraud.

Defendants moved to strike the class action allegations, to stay the proceedings and to compel arbitration under the

parties' arbitration agreement. Plaintiffs moved to certify the proposed class. The district court denied Plaintiffs' motion for class certification, holding that Plaintiffs' claims were not typical of the putative class, that insufficient commonality existed amongst the putative class members, and that Plaintiffs were inadequate representatives for the class.

Defendants moved for summary judgment on all of Plaintiffs' claims; Plaintiffs moved for partial summary judgment on their TILA claim. The district court denied Defendants' motion to stay the proceedings but granted Defendants' motion to compel arbitration, holding after review of the record including the videotape of Plaintiffs' transactions, that the arbitration agreements were enforceable under Ohio and federal law and dismissing Plaintiffs' amended complaint "without prejudice to reinstatement should further proceedings be needed after arbitration." The district court did not rule on either party's motion for summary judgment.

Plaintiffs appealed to this Court.

II.

This Court reviews the ruling of the district court compelling arbitration *de novo*. *See Ferro Corp. v. Garrison Indus.*, 142 F.3d 926, 931 (6th Cir. 1998).

Under the Federal Arbitration Act, 9 U.S.C. § 2, ("FAA"), a written agreement to arbitrate disputes which arises out of a contract involving transactions in interstate

commerce "shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract." The FAA was designed to override judicial reluctance to enforce arbitration agreements, to relieve court congestion, and to provide parties with a speedier and less costly alternative to litigation. *See Allied-Bruce Terminix Cos. v. Dobson*, 513 U.S. 265, 270, 280 (1995); *Mastrobuono v. Shearson Lehman Hutton, Inc.*, 514 U.S. 52, 52-54 (1995). When asked by a party to compel arbitration under a contract, a federal court must determine whether the parties agreed to arbitrate the dispute at issue. *See Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 626 (1985). Claims relating to fraud in the making of the arbitration agreement are determined by the court. *See C.B.S. Employees Federal Credit Union v. Donaldson, Lufkin and Jenrette Sec. Corp.*, 912 F.2d 1563, 1566 (6th Cir. 1990). Courts are to examine the language of the contract in light of the strong federal policy in favor of arbitration. *See Soler Chrysler- Plymouth*, 473 U.S. at 626; *Arnold v. Arnold*, 920 F.2d 1269, 1281 (6th Cir. 1990). Likewise, any ambiguities in the contract or doubts as to the parties' intentions should be resolved in favor of arbitration. *See Soler Chrysler-Plymouth*, 473 U.S. at 626.

When considering a motion to stay proceedings and compel arbitration under the Act, a court has four tasks: first, it must determine whether the parties agreed to arbitrate; second, it must determine the scope of that agreement; third, if federal statutory claims are asserted, it must consider whether Congress intended those claims to be nonarbitrable; and fourth, if the court concludes that some, but not all, of the claims in the action are subject to arbitration, it must

determine whether to stay the remainder of the proceedings pending arbitration. *See Compuserve, Inc. v. Vigny Int'l Finance, Ltd.*, 760 F.Supp. 1273, 1278 (S.D.Ohio 1990).

Plaintiffs argue that the district court incorrectly found that the parties had agreed to arbitrate the dispute and that under the FAA, Congress intended Plaintiffs to arbitrate their claims. Plaintiffs first contend that there was no agreement to arbitrate. However, the record indicates that the parties did agree to arbitrate: the videotape shows Plaintiffs reviewing the documents, engaging in discussions concerning them, and reading them prior to signing. "One who signs a contract is presumed to know its contents, and . . . if he has had an opportunity to read the contract which he signs he is bound by its provisions." *Sears, Roebuck & Co. v. Lea*, 198 F.2d 1012, 1015 (6th Cir. 1952). This Court applies "the cardinal rule that, in the absence of fraud or wilful deceit, one who signs a contract which he has had an opportunity to read and understand, is bound by its provisions." *Allied Steel and Conveyers, Inc. v. Fort Motor Co.*, 277 F.2d 907, 913 (6th Cir. 1960). Plaintiffs seem to argue that there is fraud in the transaction, but point to no actual evidence that either they were deceived into signing something they believed to be other than an agreement to arbitrate, or that they had not in fact signed the arbitration agreement. Absent any evidence contrary to that evident in the record — that the arbitration agreements were set forth in separate documents in regular and bold-print type, that Plaintiffs read and reviewed the arbitration agreements, that Plaintiffs had an opportunity to ask the CNAC representative about the agreements but did not do so, and that Plaintiffs

signed the agreements — we find that Plaintiffs clearly agreed to resolve their disputes through binding arbitration.

Plaintiffs also argue that Congress did not intend Plaintiffs to arbitrate the claims raised against Defendants, arguing that the Truth in Lending Act is a remedial consumer protection statute which would be usurped by imposing a requirement for arbitration.

It is settled authority that doubt regarding the applicability of an arbitration clause should be resolved in favor of arbitration. *See, e.g., Moses H. Cone Mem'l Hosp. v. Mercury Const. Corp.*, 460 U.S. 1, 24-25 (1983); *Ferro*, 142 F.3d at 932. If parties contract to resolve their disputes in arbitration rather than in the courts, a party may not renege on that contract absent the most extreme circumstances. *See Southland Corp. v. Keating*, 465 U.S. 1, 24 (1984); *Dean Witter Reynolds, Inc. v. McCoy*, 995 F.2d 649 (6th Cir. 1993). A district court's duty to enforce an arbitration agreement under the FAA is not diminished when a party bound by the agreement raises claims arising from statutory rights. *See Shearson/American Express v. McMahon*, 482 U.S. 282 (1987) (RICO); *Dorsey v. H.C.P. Sales, Inc.*, 46 F.Supp.2d 804, 808 n.5 (N.D.Ill. 1999) (TILA); *Goodwin v. Ford Motor Credit Co.*, 970 F.Supp. 1007 (M.D.Ala. 1997) (TILA). Plaintiffs cite the Eleventh Circuit Court of Appeals case of *Randolph v. Green Tree Financial Corporation*, 178 F.3d 1149 (11th Cir. 1999), *cert. granted*, 120 S. Ct. 1552 (2000), which the Supreme Court has recently granted *certiorari* to consider, in support of their argument. In *Randolph*, the Eleventh Circuit determined that an arbitration agreement "fail[ed] to provide the minimum guarantees required to

ensure that [the plaintiff's] ability to vindicate her statutory rights will not be undone by steep filing fees, steep arbitrators' fees, or other high costs of arbitration." 178 F.3d at 1158. Defendants argue, not without merit, that *Randolph* is distinguishable from this case in that *Randolph* involved a showing that the arbitration provided in those agreements was an ineffective and inaccessible forum with the potential for substantively unfair arbitration fees or procedures. In this case, the arbitration agreements clearly specify the established organization whose rules will govern the arbitration. We find Defendants' argument on this point persuasive.

Plaintiffs also argue that the arbitration agreements are unconscionable and unenforceable as against Ohio public policy. But this Court and the Supreme Court have disagreed, seeing "nothing in the act indicat[ing] that the broad principle of enforceability is subject to any additional limitations of state law." *Ferro Corp.*, 142 F.3d at 932 (*citing Southland Corp.*, 465 U.S. at 10-11). The FAA governs all aspects of arbitration procedure and preempts inconsistent state law. *See Doctor's Assoc., Inc. v. Casarotto*, 517 U.S. 681, 688 (1996); *Moses H. Cone*, 460 U.S. at 24.

In this case, Plaintiffs' claim for fraud, violations of OCSPA, and TILA relate to the purchase of their vehicles and arise under their purchase and finance contracts with Defendants. Because we previously found that the parties fairly agreed to arbitrate these types of claims, we find that neither this Court nor the Ohio courts have the ability to mandate judicial resolution of these disputes in violation of

the parties' agreement.[1] Plaintiffs point to the Ohio Supreme Court decision of *Williams v. Aetna Financial Company*, 700 N.E.2d 859 (Ohio 1998), *cert. denied*, 119 S. Ct. 1357 (1999), in support of their argument. However, we note that *Williams* considers Ohio's obligation to compel arbitration under the Ohio Arbitration Act, Ohio Rev. Code Ann. § 2711.01 (Anderson 1999), and not under the FAA as in this case. Even if *Williams* was relevant, we find it distinguishable, as Plaintiffs have not established that these agreements, like those in *Williams*, are unenforceable adhesion contracts. Under Ohio law, in order for an arbitration provision to be unconscionable, it must be one-sided, deny the less advantaged party meaningful choice in accepting the terms of the contract, and involve a situation such that the less advantaged party cannot obtain their desired product or services except by acquiescing to the form contract. *See Williams*, 700 N.E.2d at 872-73 (Cook, J. dissenting). Plaintiffs have presented no evidence beyond their speculations that Defendants would have refused to sell the vehicles had they refused to sign the arbitration agreements, nor do they demonstrate that they could only purchase similar vehicles by agreeing to the arbitration agreements. Furthermore, the district court found, and we agree, that the arbitration provisions are not so one-sided as to be unconscionable: no evidence shows that the legitimate arbitration organizations will fail to fairly and equally oversee Plaintiffs' claims. In the absence of any factual evidence that these agreements were entered into fraudulently

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1. We note that Plaintiffs are not asserting that their claims fall under the exceptions from arbitration determined by the language of the arbitration agreement itself.

or mistakenly, and absent any showing by Plaintiffs that the arbitration arrangements are themselves one-sided or unfair, we affirm.

III.

We turn to the issue of the district court's denial of class certification. We note first that as we have found that the district court correctly compelled arbitration, this issue is relevant only to the extent that it may be asserted in arbitration as a basis for damages or attorneys' fees.

This Court reviews a district court's ruling on class certification for an abuse of discretion, as the district court retains broad discretion in determining whether an action should be certified as a class action. *See Sterling v. Velsicol Chem. Corp.*, 855 F.2d 1188, 1198 (6th Cir. 1988).

Under governing law, a court may certify a class if it performs "rigorous analysis" of the requirements of Federal Rule of Civil Procedure 23. *General Tel. Co. v. Falcon*, 457 U.S. 147, 161 (1982); *accord Sprague v. General Motors Corp.*, 133 F.3d 388, 397 (6th Cir. 1998). Rule 23(a) sets forth four prerequisites to class certification: (1) the class must be so numerous that "joinder of all members is impracticable;" (2) there must be "questions of law or fact common to the class;" (3) the claims of the representative party must be "typical" of the class; and (4) the representative party must be able to "fairly and adequately protect the interests of the class." Fed. R. Civ. P. 23(a). Rule 23(b) requires that the court find that common questions of law or fact predominate over individual issues in the case.

Appendix A

Plaintiffs seek to certify a class comprising all persons who purchased an automobile from Docherty Motors that was financed by CNAC between 1993 and the present. They allege that Defendants defrauded every member of this class by selling them used vehicles with concealed damage and that every member has incurred substantial repair costs in order to remedy that damage.

The district court found that Plaintiffs' claims were not typical of the class under Rule 23(a)(3); that Plaintiffs were not adequate representatives of the proposed class under Rule 23(a)(4); and that neither Stout nor Brown showed a sufficient relationship between their experiences and the experiences of putative class members. Rule 23(a)(3) typicality "determines whether a sufficient relationship exists between the injury to the named plaintiff and the conduct affecting the class, so that the court may properly attribute a collective nature to the challenged conduct." *Sprague*, 133 F.3d at 399. This Court has summarized this standard: "[a]s goes the claim of the named plaintiff, so go the claims of the class." *Id.*

We find that the district court did not abuse its discretion in its finding, noting that the district court identified discrepancies between Plaintiffs and the ostensible class members ranging from the type of car, the degree of repairs necessitated, the response to those repairs, the purpose for which the car was purchased, the individual circumstances and transactions surrounding each purchase including each class member's understanding of the terms and conditions of their purchase agreements, and the extent of the injury suffered. Because Plaintiffs' claims rest on their

understanding of the purchasing transaction and each buyer's understanding of the terms, and because some buyers did not purchase the extended service agreement, we find that the district court did not abuse its discretion. *See Peters v. Cars to Go*, 184 F.R.D. 270 (W.D.Mich. 1998) (finding under similar facts that a customer's individual decision to purchase an extended service agreement militates against class certification).

Similarly, we agree that the district court did not abuse its discretion in determining that Plaintiffs are not adequate representatives of the putative class. *See* Fed. R. Civ. P. 23(a)(4). Under Rule 23(a)(4), a plaintiff seeking to represent the class must demonstrate that he or she will fairly and adequately represent and protect the interests of the class. *See In re American Med. Sys., Inc.*, 75 F.3d 1069, 1083 (6th Cir. 1996). The court reviews the adequacy of class representation to determine whether class counsel are qualified, experienced and generally able to conduct the litigation, and to consider whether the class members have interests that are not antagonistic to one another. *See id.* Interests are antagonistic when there is evidence that the representative plaintiffs appear unable to "vigorously prosecute the interests of the class." *Id.* The district court determined that Stout and Brown had interests antagonistic to the remainder of the putative class because Stout had already filed and voluntarily dismissed a separate individual action in state court against the same Defendants, thus preserving his right to pursue that suit should the class action claim be dismissed; the named Plaintiffs obtained repairs or alternative proposed resolutions from Defendants which differ from other class members — Brown received a

complete engine replacement, and Defendants offered to fully refund to Stout the purchase price of his vehicle; and the named Plaintiffs' claims arise from different transactions and alleged injury, therefore causing absent class members to potentially lose the benefit of having the facts of their separate cases adequately presented. We find that the district court's decision, based on these considerations, not to constitute an abuse of its discretion.

We similarly agree with the district court's conclusion that Plaintiffs failed to meet the requirement of Rule 23(b) that common issues predominate over individual issues. *See* Fed. R. Civ. P. 23(b). In this case, the district court determined that the factual core of the case was whether each putative class member relied upon false representations or failures to disclose, and if so, what damages were proximately caused by that reliance. We find that this determination did not constitute an abuse of discretion by the district court in light of the fact that any resolution of the fraud or the TILA claims requires an individual assessment of what documents the customer reviewed and in what manner, what representations Defendants made to each customer, and whether the customer selected the extended service agreement. *See Castano v. American Tobacco Co.*, 84 F.3d 734, 745 (5th Cir. 1996) ("[A] fraud class action cannot be certified when individual reliance will be an issue.").

As we find that the district court correctly compelled arbitration and that the district court's refusal to certify a class did not constitute an abuse of discretion, we **AFFIRM** the orders of the district court.

APPENDIX B — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF OHIO, EASTERN DIVISION DATED AND FILED JUNE 9, 1999

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

CASE NO. 5:98-CV-2830
Judge James S. Gwin

JAMES D. STOUT, et al.,

Plaintiffs,

v.

J.D. BYRIDER, et al.,

Defendants.

ORDER

In this case, Plaintiffs James D. Stout and Shirley A. Brown make claim for fraud, violations of Ohio's Consumer Sales Practices Act, and the federal Truth-in-Lending Act arising from the plaintiffs' purchase of used motor vehicles. Now before the Court is the defendants' motion to compel arbitration pursuant to 9 U.S.C. § 1, *et seq.*, the Federal Arbitration Act [Doc. 8].[1]

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1. On June 7, 1999, this Court denied the plaintiffs' motion to certify this case as a class action under Federal Rule of Civil Procedure 23.

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With their motion, the defendants say Plaintiffs Stout and Brown agreed to arbitrate disputes against the defendants relating to the sale and financing of automobiles. Defendants ask the Court to enforce the arbitration agreements and refer this case to arbitration.

Plaintiffs Stout and Brown oppose arbitration arguing that the defendants fraudulently induced their assent to the arbitration and dispute resolution agreements. Plaintiffs say that because the agreements are one-sided and benefit only the defendants, the agreements are unenforceable adhesion contracts.

Because the defendants gave plaintiffs an opportunity to ask questions and review the agreements before signing them, the Court finds that the arbitration agreements are enforceable. Therefore, the Court grants the defendants' motion to compel arbitration under the terms of the agreements. As arbitration will resolve the issues in suit, the Court dismisses this case without prejudice to reinstatement should further proceedings be needed after arbitration.

I. Factual background

In 1998, Plaintiffs James D. Stout and Shirley Brown purchased used automobiles from Docherty Motors in Sandusky, Ohio. They obtained financing to purchase the cars from Defendant CarNow Acceptance Corporation ("CNAC").

Plaintiffs Stout and Brown say the vehicles they purchased from Defendant Byrider were defective. Stout and

Brown claim they purchased expensive warranties without knowledge that these warranty charges were included in the finance charges. The plaintiffs say the defendants have engaged in a standard practice of uniformly misrepresenting the quality and value of the vehicles they sell and the cost and value of warranties.

Plaintiffs Stout and Brown also claim that with their purchase contracts, the defendants required them to sign standard form arbitration agreements. The plaintiffs now oppose arbitration under these contracts. They say the defendants did not explain the legal consequences of agreeing to arbitrate disputes relating to the sale and financing of the automobiles. Plaintiffs urge the Court not to compel arbitration because the arbitration agreements unjustly abrogate their legal rights to bring claims in court.

Considering these facts, the Court decides whether to order arbitration pursuant to 9 U.S.C. § 1, *et seq.*

II. Discussion

In this case, the parties dispute whether certain standard arbitration agreements the plaintiffs signed are enforceable. Defendants maintain the agreements are enforceable because the plaintiffs had time to review the agreements and ask questions before signing the contract. Plaintiffs say the defendants failed to fully explain the arbitration agreements. Because this case concerns arbitration agreements involving transactions in interstate commerce, the Federal Arbitration Act governs.

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The Federal Arbitration Act embodies "the strong federal policy in favor of enforcing arbitration agreements." *Dean Witter Reynolds, Inc. v. Byrd*, 470 U.S. 213, 217 (1985); *Southland Corp. v. Keating*, 465 U.S. 1, 10 (1984). The policy supporting the Act is to "ensure judicial enforcement of privately made agreements to arbitrate." *Dean Witter* at 219; *Ferro Corp. v. Garrison Indus., Inc.*, 142 F.3d 926, 932 (6th Cir. 1998).

Section 2 of the Federal Arbitration Act provides that written agreements to arbitrate in a contract involving transactions in interstate commerce "shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract." 9 U.S.C. § 2. Section 3 provides for a stay of proceedings in district courts when an issue is determined to be arbitrable.[2] 9 U.S.C. § 3. Section 4 gives district courts authority to compel arbitration when a party neglects or refuses to comply with an arbitration agreement. 9 U.S.C. § 4.

Where the Act applies, federal law and not state law generally governs the arbitrability of a dispute. *Moses H. Cone Mem. Hosp. v. Mercury Constr. Corp.*, 460 U.S. 1, 24

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2. Courts may dismiss cases subject to reinstatement where there "is nothing left for the district court to do but execute judgment." *Arnold v. Arnold Corp. – Printed Communications for Business*, 920 F.2d 1269, 1275-78 (6th Cir. 1990); *see also Raiola v. Union Bank of Switzerland, LLC*, No. 98 Civ. 5031 (SAS), slip op., 1999 WL 262284, *7 (S.D.N.Y. April 30, 1999) (dismissing without prejudice to reinstatement subject to need for proceedings following arbitration).; *Rand v. J.C. Bradford & Co.*, No. 98 Civ. 4906 (DLC), 1998 WL 872421 (S.D.N.Y. Dec. 15, 1998) (same).

(1983). However, because arbitration is a matter of contract, a party cannot be compelled to arbitrate any claims he or she did not agree to arbitrate when making the contract. *AT&T Technologies, Inc. v. Communications Workers of America*, 475 U.S. 643, 648 (1986); *see also Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 626 (1985) ("[A]s with any other contract, the parties' intentions control, but those intentions are generously construed as to issues of arbitrability.").

If a party opposing arbitration shows "well supported claims that the agreement to arbitrate itself resulted from fraud, 'overwhelming economic power,' or unfair pressure under principles of contract, the court may revoke the contract." *Prima Paint Corp. v. Flood & Conklin Mfg. Co.*, 388 U.S. 395, 401 (1967) ("[T]he federal court is instructed to order arbitration to proceed once it is satisfied that 'the making of the agreement for arbitration or the failure to comply (with the arbitration agreement) is not in issue'.") (citation omitted).[3]

Here, Plaintiffs Stout and Brown each entered private contracts with the defendants. Plaintiffs now say the defendants fraudulently induced them into signing these

3. *See also Rhode v. E & T Investments, Inc.*, 6 F. Supp.2d 1322, 1326-27 (M.D. Ala. 1998) (same) (citations omitted); *Management Recruiters Int'l, Inc. v. Nebel*, 765 F. Supp. 419, 420 (N.D. Ohio 1991) ("A claim that the contract containing the arbitration clause was induced by fraud does not defeat a motion to compel arbitration unless the claimant can demonstrate specifically that the arbitration clause itself was fraudulently induced.").

contracts. Plaintiffs ask the Court to find the arbitration contracts adhesive and unconscionable.

In deciding whether to order arbitration, courts consider four principal issues: (1) whether the parties agreed to arbitrate the dispute; (2) the scope of the arbitration agreement; (3) if federal claims are asserted, whether Congress intended arbitration to govern the claims, and (4) if only some claims are arbitrable, whether to stay the proceedings pending arbitration. *H & M Charters, Inc. v. Reed*, 757 F. Supp. 859, 864 (S.D. Ohio 1991) (quoting *Creative Securities Corp. v. Bear Stearns & Co.*, 671 F. Supp. 961 (S.D.N.Y. 1966); *Compuserve, Inc. v. Vigny Int'l Finance, Ltd.*, 760 F. Supp. 1273, 1278 (S.D. Ohio 1990).

Applying these standards, the Court first decides whether the parties agreed to arbitrate their disputes. The record evidence shows that the parties did agree to arbitration.

First, the plaintiffs each engaged in lengthy discussions with Mr. Wendall Gaddie, Defendant CNAC's financing representative. These discussions involved Mr. Gaddie explaining many standard form agreements relating to the purchase of the vehicles. With each plaintiffs' automobile purchase, Gaddie sat with the plaintiff and individually presented the plaintiff with each form for review and signature. Gaddie also encouraged the plaintiffs to ask questions if they did not understand the forms.

Although the financing process appears to use prepared forms and organized transaction "jackets," each customer financing transaction is very systematic. Mr. Gaddie

systematically presents the customer with individual forms to sign and he provides a brief explanation of the form. If a customer asks a question, Mr. Gaddie answers the inquiry and gives further explanation. During the plaintiffs' meetings with Gaddie, each plaintiff specifically reviewed the arbitration agreements at issue, but did not ask questions.[4] Also, each plaintiff signed the arbitration forms, representing that they understood the terms of the agreement. These facts show that the plaintiffs agreed to arbitration.[5]

Second, both Plaintiffs Stout and Brown say they read the contract language before signing the agreements. The contract language itself is clear. On January 31, 1998, Plaintiff Brown purchased and financed a 1991 Ford Fiesta. In doing so, she read and signed a form captioned "Agreement for Binding Arbitration." The agreement states in part:

> Except as described below, in the event of a dispute under the terms of the Contracts, the Dealer and the Purchaser(s) hereby agree to submit such dispute to the *Better Business Bureau* for resolution by binding arbitration according to the rules of the Better Business Bureau.

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4. See Videotape of customer transactions, Defendants' Exhibit C.

5. *See Ferro Corp. v. Garrison Indus., Inc.*, 142 F.3d 926, 933 (6th Cir. 1998) (stating that "the issue of fraudulent inducement of a contract is to be decided by an arbitrator, unless the making of the arbitration agreement itself was fraudulently induced.").

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> THE PARTIES HEREBY FURTHER AGREE THAT THE ONLY CLAIM NOT SUBJECT TO THIS AGREEMENT IS A CLAIM BY THE DEALER THAT PURCHASER(S) HAVE FAILED TO MAKE PAYMENTS ON A TIMELY BASIS IN COMPLIANCE WITH THE CONTRACTS, SUCH A CLAIM MAY BE PURSUED IN A COURT OF LAW.

Agreement for Binding Arbitration, dated January 31, 1998 (emphasis added).

The contract language clearly says that disputes between the "Dealer" and "Purchaser" will be resolved through arbitration before the Better Business Bureau. The contract says the only exception to this agreement to arbitrate is the Dealer's right to pursue default claims in court. Taken together, the terms infer that a purchaser cannot bring claims in court.

Private arbitration offers potential real benefits to both parties in cost effective and quick resolution of disputes that may arise. The plaintiffs make no showing that arbitration before the Better Business Bureau is unconscionable. The defendants disclosed these conditions in bold-print type in the agreement. Plaintiff Brown does not show evidence that she objected to these terms or that the defendants required her to accept these terms without question.

When Plaintiff Stout purchased a 1992 Chevrolet Camaro on May 26, 1998, he signed a similar agreement.

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Stout signed a form captioned "Dispute Resolution Agreement" that states in part:

> With the exception described below, in the event of a dispute(s) under the terms of the Contract(s), the parties will submit such dispute(s) for resolution by binding arbitration instead of submitting disputes to a court or jury. For example, this applies to all disputes brought under state or federal consumer protection and lending laws. Arbitration will be according to the arbitration rules of the *American Arbitration Association*.
>
> THE PARTIES AGREE THAT THE ONLY CLAIMS NOT SUBJECT TO THIS AGREEMENT ARE: 1) A CLAIM BY EITHER PARTY SEEKING TOTAL DAMAGES UNDER $10,000; AND 2) CLAIMS RELATING TO REPOSSESSION OR REPLEVIN OF THE VEHICLE.
>
> Purchaser, Dealer, and all assignees shall each pay their own expenses, including attorneys' fees, and shall bear equally the fees and expenses of the arbitrator. Judgment upon any arbitrator's award may be entered by any court having competent jurisdiction.

* * *

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> BY SIGNING BELOW, ALL PARTIES ACKNOWLEDGE THAT THEY HAVE READ THIS DISPUTE RESOLUTION AGREEMENT AND THAT THEY AGREE TO ITS TERMS AND CONDITIONS.

Dispute Resolution Agreement, dated May 26, 1998 (emphasis added).

After reviewing these agreements and the videotape evidence of these transactions, the Court finds that Plaintiffs Stout and Brown voluntarily and expressly agreed to arbitrate any claims.

The Court next considers the scope of these agreements and whether Congress intended the Federal Arbitration Act to govern the plaintiffs' claims. Under the Act, "any doubts concerning the scope of arbitrability should be resolved in favor of arbitration." *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 25-6 (1991); *McGinnis v. E.F. Hutton & Co., Inc.*, 812 F.2d 1011, 1013 (6th Cir.), *cert. denied*, 484 U.S. 824 (1987).

The scope of the contracts at issue favors arbitration. First, the arbitration agreements the plaintiffs signed are broad. The contracts require the plaintiffs to arbitrate all disputes "under the terms of the 'Contracts.' " To the extent the plaintiffs dispute issues that relate to the purchase of their vehicles (e.g., payments, financing, or the warranty agreements), such matters are arbitrable.

Second, all of the plaintiffs' claims against the defendants arise "under the contracts" and are subject to arbitration. In their First Amended Complaint, the plaintiffs make claim for fraud, violations of Ohio's Consumer Sales Practices Act, and violations of the federal Truth-in-Lending Act. These claims clearly fall within the scope of the Federal Arbitration Act. Claims arising under the Truth-in-Lending Act, 15 U.S.C. 1640(e), presumptively involve interstate commerce. *Prima Paint Corp.*, 388 U.S. at 401; *McCarthy v. Providential Corp.*, No. C 94-0627, 1994 WL 387852, *2 (N.D. Cal. July 19, 1994), *appeal dismissed*, 122 F.3d 1242 (9th Cir. 1997), *cert. denied*, 199 S. Ct. 275 (1998). This presumption is satisfied here since the plaintiffs' contracts are for the purchase of motor vehicles — transactions involving interstate commerce. Because the plaintiffs' state law claims arise from the same transactions, these claims also fall within the scope of the Act. 9 U.S.C. § 2.

Having decided this, the Court next considers whether Plaintiffs Stout and Brown show sufficient evidence of fraud in the inducement to defeat arbitration.

Where a plaintiff challenges the making of the arbitration agreement itself, as opposed to the terms of the contract as a whole, federal courts may rule on the merits of the claim. *Prima Paint Corp.*, 388 U.S. at 404. In doing so, the court applies state law principles governing the formation of contracts. *Volt Info. Sciences, Inc. v. Board of Trustees of Leland Stanford Jr. Univ.*, 489 U.S. 468, 475-76 (1989); *Ferro*, 142 F.3d at 934.

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Plaintiff Stout and Brown allege the defendants fraudulently induced their assent to arbitration. Plaintiffs say the defendants presented the agreements but failed to fully explain that arbitration abrogated the plaintiffs' legal rights to bring claims in state court. Arguing the agreements are unenforceable adhesion contracts, plaintiffs rely on the Ohio Supreme's Court's 1998 decision in *Williams v. Aetna Financial Company*, 83 Ohio St.3d 464 (1998), *cert. denied*, __ U.S. __, 119 S. Ct. 1357 (1999). Plaintiffs suggest the *Williams* case stops this Court from finding the arbitration agreements enforceable. The Court disagrees.

In *Williams*, the Ohio Supreme Court reviewed an arbitration clause contained in a consumer credit agreement between a plaintiff home buyer and Aetna, a home equity lender. The borrower, Mildred Williams, signed a loan agreement contract to have work done on her home. The loan agreement effectively was a second mortgage on her home and included an arbitration clause requiring Williams to arbitrate any disputes outside the courts.

Considering whether the agreement between Aetna and Williams was enforceable, the Ohio Supreme Court found the arbitration clause to be unconscionable. Although the court recognized the strong presumption in federal and state law favoring arbitration agreements, the court decided this presumption was overcome by evidence of an egregious conspiracy to defraud the plaintiff:

> We determine that any presumption in favor of arbitration was overcome based on the entire record of this case. Furthermore, we believe that

> the presumption in favor of arbitration should be substantially weaker in a case such as this, when there are strong indications that the contract at issue is an adhesion contract, and the arbitration clause itself appears to be adhesive in nature. In this situation, there arises considerable doubt that any true agreement ever existed to submit disputes to arbitration.

Id. at 473.[6]

Although the *Williams* decision is noteworthy considering the plaintiffs' claims for fraudulent inducement, the decision does not control here. First, the Federal Arbitration Act governs the instant case. In *Williams*, the Ohio Supreme Court construed a court's obligation to compel arbitration under Ohio Revised Code § 2711.01, Ohio's arbitration statute. This obligation is not present here.

Second, to the extent the Federal Arbitration Act requires federal courts to consider issues of state contract law, this Court applies and is guided by the federal policy favoring arbitration. *Moses*, 460 U.S. at 24. Further, even considering the well-articulated principles of unconscionability stated in *Williams*, this Court does not find the agreements here to be unenforceable adhesion contracts.

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6. The *Williams* court stated that the arbitration clause contained in Williams' consumer contract "necessarily engendered more reservations regarding its enforceability under principles of equity than an arbitration clause in a different setting. . . ." *Id.* at 472.

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In Ohio, a plaintiff sufficiently states a claim that an arbitration agreement is unconscionable or takes the form of an adhesion contract by showing that (1) the contract terms are one-sided or unreasonably favorable to the other party, (2) that disparity between the parties' bargaining power denies the less advantaged party meaningful choice in accepting the terms of the contract, and (3) the less advantaged party cannot obtain their "desired product or services except by acquiescing in form contract." *See Williams*, 83 Ohio St.3d at 482 (Cook, J., dissenting); *Sekeres v. Arbaugh*, 31 Ohio St.3d 24, 31 (1987) (H. Brown, dissenting) (quoting Black's Law Dictionary at 38, defining "adhesion contract" (5th ed. 1979)).[7]

Here, the Court finds the arbitration provisions are not so one-sided as to be unconscionable. Both agreements call for submission to legitimate resolution panels. No evidence supports a claim that the Better Business Bureau or the American Arbitration Association would not be able to fairly adjudicate plaintiffs' claims. Plaintiff Stout's agreement provides that each party is to bear their own costs. These provisions are conscionable.

Plaintiffs do not show the defendants denied opportunity to object or question the terms of the arbitration agreements.

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7. *See Standard Oil Co. of Cal. v. Perkins*, 347 F.2d 379, 383 n.5 (9th Cir. 1965) (" 'Adhesion contract' is a handy shorthand descriptive of standard form printed contracts prepared by one party and submitted to the other on a 'take it or leave it' basis. The law has recognized there is often no true equality of bargaining power in such contracts and has accommodated that reality in construing them.") (historical citations omitted).

Plaintiffs concede they could ask questions if they did not understand the agreements. Nor do the plaintiffs show that the defendants' would have refused to sell the vehicles had the plaintiffs decided not to sign the agreements. Also, these contracts involved the purchase of used vehicles of a kind that are widely available from a huge number of sellers if Stout or Brown found the arbitration provision unacceptable. Neither Stout nor Brown challenged the contract at the time they signed it, despite having opportunity to do so.[8]

Here, the defendants properly rely on the contract language and the strong presumption under federal law favoring arbitration. Applying federal law to these facts favors arbitration.

The Federal Arbitration Act requires courts to "rigorously enforce agreements to arbitrate." *Shearson/ American Express, Inc. v. McMahon*, 482 U.S. 220, 226 (1987); *Dean Witter*, 470 U.S. at 221. The Act "leaves no place for the exercise of discretion by a district court, but instead mandates that district courts *shall* direct the parties to proceed to arbitration on issues as to which an arbitration

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8. *See Ferro*, stating:

> In determining the validity of an arbitration agreement contained in a contract subject to the FAA, the Supreme Court has held that once a court determines that the agreement to arbitrate has not been fraudulently induced all other issues falling within that agreement are to be sent to arbitration.

142 F.3d at 933.

agreement has been signed." *Id.* at 218 (citing §§ 3 and 4 of the Act) (emphasis added).

The mandatory provisions of the Federal Arbitration Act do not permit parties to an arbitration agreement "to ignore the contract and resort to the courts. Such a course could lead to prolonged litigation, one of the very risks the parties, by contracting for arbitration, sought to eliminate." *Southland Corp. v. Keating*, 465 U.S. 1, 7 (1984).

As earlier discussed, neither Brown or Stout give sufficient evidence that the defendants fraudulently induced them to sign the arbitration agreements. Plaintiffs Stout and Brown say they each read the respective agreement before signing it. Defendants also offered the plaintiffs an opportunity to ask questions. Furthermore, the contract language was clear and unambiguous. The defendants presented the arbitration agreements to the plaintiffs on a separate form. The contract terms were not hidden in boilerplate language or otherwise disguised.[9]

Taken together, the facts of this case favor enforcing the arbitration agreements.

III. Conclusion

Having reviewed the facts of this case, the Court concludes the plaintiffs agreed to arbitrate their claims before non-judicial tribunals. The court further finds that the

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9. See Exhibits 5 and 6 to Plaintiffs' Response Brief to Defendants' Motion to Compel.

plaintiffs do not give sufficient evidence that the defendants fraudulently induced their assent to the arbitration agreements. Accordingly, the Court grants the defendants' motion to compel arbitration. 9 U.S.C. § 4.

As arbitration will resolve the issues in suit, the Court denies that part of the defendants' motion seeking to stay this case. The Court dismisses this case without prejudice to reinstatement should further proceedings be needed after arbitration. The parties shall proceed to arbitration before the Better Business Bureau or the American Arbitration Association, respectively, and shall comply with the terms of the agreements.

IT IS SO ORDERED.

Dated: June 9, 1999

s/ James S. Gwin
Judge James S. Gwin
United States District Judge

APPENDIX C — ORDER OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF OHIO, EASTERN DIVISION DATED AND FILED JUNE 7, 1999

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

CASE NO. 5:98-CV-2830
Judge James S. Gwin

JAMES D. STOUT, et al.,

Plaintiffs,

v.

J.D. BYRIDER, et al.,

Defendants.

ORDER

In this action, Plaintiffs James D. Stout and Shirley A. Brown make claim for fraud, violations of Ohio's Consumer Sales Practices Act, and the federal Truth-in-Lending Act arising from the plaintiffs' purchase of used motor vehicles. On April 6, 1999, the plaintiffs moved this Court to certify this case as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure [Doc 29]. Plaintiffs seek a class described as:

> All consumers who purchased an automobile from the defendant, J.D. Byrider aka Docherty Motors,

that was financed through the defendant, T. & J. Acceptance Corporation dba CarNow Acceptance Company, in the State of Ohio at any time from 1993 through the present.

Defendants oppose certification of the proposed class arguing that there is insufficient commonality among the class, that plaintiffs' claims are not typical of the class, and that the plaintiffs will not adequately represent the class. Because the Court finds that the plaintiffs' claims are not typical of the class and because the Court finds insufficient commonality among the class, the Court denies the motion to certify this as a class action, for the reasons that follow.

I. Factual background

In 1998, Plaintiffs James D. Stout and Shirley Brown purchased used automobiles from Docherty Motors in Sandusky, Ohio. They obtained financing to purchase the cars from Defendant CarNow Acceptance Corporation ("CNAC").

Stout and Brown bought different vehicles of different age and mileage, for different prices, and from different salesmen. Both Stout and Brown purchased extended warranty service agreements.

Plaintiffs Stout and Brown say the vehicles they purchased from Defendant Byrider were defective. Stout and Brown claim they purchased expensive warranties without

knowledge that these warranty charges were included in the finance charges. The plaintiffs say the defendants have engaged in a standard practice of uniformly misrepresenting the quality and value of the vehicles they sell and the cost and value of a warranty.

Considering these facts, the Court decides whether this cause is suitable for class certification under Federal Rule 23.

II. Discussion

Plaintiffs Stout and Brown say this case is suitable for class treatment because the defendants have engaged in a systematic practice of defrauding many used car buyers. Plaintiffs say the underlying proof of their claims and the claims of the prospective class arises from the same scheme of deceptive conduct. Stout and Brown urge that class treatment is the most effective way of obtaining relief under these facts.

Federal Rule of Civil Procedure 23 governs class action lawsuits. A court may certify a case as a class action if all the procedural requirements of Rule 23(a) are met, and if certification is appropriate under Rule 23(b)(1), (b)(2) or (b)(3).[1] The party seeking class certification bears the burden of proof. *General Tel. Co. of the Southwest v. Falcon*, 457 U.S. 147, 161 (1982); *In re American Med. Sys., Inc.*,

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1. Rule 23(a) provides the procedural requirements for class certification. Rule 23(b) provides additional requirements for maintaining a class.

75 F.3d 1069, 1079 (6th Cir. 1996). The United States Supreme Court requires district courts to conduct a "rigorous analysis" into whether the prerequisites of Rule 23 are met before certifying a class. *Falcon*, 457 U.S. at 161.[2]

The Sixth Circuit has adopted this mandate. *See Sprague v. General Motors Corp.*, 133 F.3d 388, 397 (6th Cir.), *cert. denied*, __ U.S. __, 118 S. Ct. 2312 (1998). In *Sprague*, the Sixth Circuit stated that "a district court may not certify any class without 'rigorous analysis' of the requirements of Rule 23." *Id.* (quoting *Falcon*, 457 U.S. at 161).

Here, Plaintiffs Stout and Brown say they satisfy the prerequisites of Rule 23(a), and that certification under Rule 23(b)(2) or (b)(3) is appropriate. The Court first decides if the plaintiffs satisfy the requirements of Rule 23(a).

A. Rule 23(a)

Rule 23(a) sets forth the following four prerequisites to class certification: (1) the class must be so numerous that "joinder of all members is impracticable"; (2) there must be "questions of law or fact common to the class"; (3) the claims of the representative party must be "typical" of those of the class; and (4) the representative party must "fairly and adequately protect the interests of the class." Fed. R.

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2. *See also In re American Med Sys., Inc.*, 75 F.3d at 1078-79; *Kutschbach v. Davies*, 885 F. Supp. 1079 (S.D. Ohio 1995) (proposed class representative must establish that all requirements for certification of class are satisfied with respect to putative class for certification to be proper); *Jacksaw Pontiac, Inc. v. Cleveland Press Pub. Co.*, 102 F.D.R. 183, 196 (S.D. Ohio 1984).

Civ. P. 23(a). The commonality, typicality, and adequacy-of-representation requirements are related. Each requires a judge to consider whether the claims of the named plaintiff are sufficiently similar to the claims of the absent class members to make the plaintiff an adequate representative of the proposed class's interests. *See Falcon*, 457 U.S. at 157-58 n.13.

Here, Plaintiffs Stout and Brown fail to satisfy at least two of the four requirements; their claims are not typical of the class under Rule 23(a)(3), and the plaintiffs are not adequate representatives of the proposed class under 23(a)(4).

Under Fed. R. Civ. P. 23(a)(3), a plaintiff seeking class certification must show that his or her claims are typical of other potential class claims. Rule 23(a)(3) exists to ensure that the claims of the representative party are similar enough to the claims of the class so that the representative adequately will represent all members of the class. *See Hiatt v. County of Adams, Ohio*, 155 F.R.D. 605, 609 (S.D. Ohio 1994) (any inquiry into typicality under Rule 23(a)(3) requires a comparison of the claims or defenses of the representative with the claims or defenses of the class).

The United States Supreme Court repeatedly has held that "a class representative must be part of the class and 'possess the same interest and suffer the same injury' as the class members." *Falcon*, 457 U.S. at 156 (citing *East Texas Motor Freight System, Inc.*, 431 U.S. at 403.[3] In *Sprague*,

3. *See also Schlesinger v. Reservists Committee to Stop the War*, 418 U.S. 208 (1974) (to have standing to sue as a class (Cont'd)

the Sixth Circuit described the typicality requirement as follows:

> Typicality determines whether a sufficient relationship exists between the injury to the named plaintiff and the conduct affecting the class, so that the court may properly attribute a collective nature to the challenged conduct. . . . A necessary consequence of the typicality requirement is that the representative's interests will be aligned with those of the represented group, and in pursuing his own claims, the named plaintiff will also advance the interests of the class members.

Id. at 399 (citing 1 Herbert B. Newberg & Alba Conte, 1 Newberg on Class Actions § 3-13, at 3-75 (3d ed. 1992) (internal quotations omitted)). The Sixth Circuit summarized the premise of the legal standard simply: "as goes the claim of the named plaintiff, so go the claims of the class." *Sprague*, 133 F.3d at 399.

Here, Plaintiffs Stout and Brown fail to show a sufficient relationship between the plaintiffs' experiences and the diversity of experiences of putative class members. For

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(Cont'd)
representative, it is essential that plaintiff be a party of that class which means he must possess the same interest and suffer the same injury shared by all members of class he represents); *Senter*, 532 F.2d at 523-24 (to be typical, a representative's claim need not always involve the same facts or law provided there is a common element of fact or law).

example, Plaintiffs Stout and Brown had differing difficulties with their vehicles and each received different responses to their requests for repairs. Plaintiff Stout alleges his car frame had been damaged. The vehicle Stout purchased was a 1992 Chevrolet Camaro that had over 91,000 miles. By contrast, Brown alleges her car routinely needed repairs. Brown purchased a different model vehicle with less than 49,000 miles.

Plaintiffs Stout and Brown also purchased their vehicles at different prices and for different purposes. Stout purchased his car for his personal use. Brown purchased her vehicle for her sixteen-year-old daughter. The plaintiffs' cars also had different prior owners and each car has a unique history of use and care.

Moreover, Plaintiffs Stout and Brown and the other proposed class members purchased their respective cars under different circumstances. The plaintiffs engaged in separate transactions with the defendants, and each had different financing and lending needs. Each plaintiff also had a different individual understanding of the terms and conditions of their purchase agreements. Each plaintiffs' level of expertise and experience in buying vehicles varies. These factors show that the plaintiffs' dealings with the defendants are not "typical" to each other, nor typical of prospective absent class members.

Also, each plaintiff appears to have allegedly suffered different injury. Among the plaintiffs, the extent of the alleged injury varies in degree. In this regard, the adequate remedy for each plaintiff will likely differ. Some plaintiffs

may not claim any problems with their vehicles, while others may receive refunds or repairs and be satisfied. Simply because one plaintiff may prove he or she was injured, it cannot be said that another plaintiff alleging different harm arising from a separate transaction will be able to prove their case.

The substantial differences among putative class members described above militate against a finding of typicality. Accordingly, the Court finds the plaintiffs fail to satisfy the requirements of Rule 23(a)(3).

B. Rule 23(a)(4).

Under Rule 23(a)(4), a plaintiff seeking to represent the class must show that he or she will fairly and adequately represent and protect the interests of the class. *In re American Med. Sys., Inc.*, 75 F.3d at 1083. This requirement is "essential to due process, because a final judgment in a class action is binding on all class members." *Id.* (citing *Hansberry v. Lee*, 311 U.S. 32 (1940)).

Adequacy of class representation is initially measured by two standards. First, class counsel must be qualified, experienced and generally able to conduct the litigation. Second, class members must not have interests that are antagonistic to one another. *Id.* (citing *Senter*, 532 F.2d at 525).[4] The Court evaluates each of the standards.

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4. *See also Alexander Grant & Co.*, 116 F.R.D. at 588-89 (stating "[t]here are typically three factors that make up the common

(Cont'd)

First, the plaintiffs are represented by a law firm and individual attorneys with broad experience in class action suits, complex litigation, and personal injury and commercial claims. The law firm and attorneys are well qualified to represent the class. Accordingly, the plaintiffs satisfy the first prong for adequate representation.

The second prong of Rule 23(a)(4) requires the Court to decide whether Plaintiffs Stout and Brown, the named plaintiffs, have interests that are antagonistic to the proposed class members. Interests are antagonistic when there is evidence that the representative plaintiffs appear unable to "vigorously prosecute the interests of the class." *In re American Med. Sys.*, 75 F.3d at 1083. Inability to prosecute the class's interest may arise due to a conflict of interest with other members of the class. *Id.* A representative plaintiff also should have a stake in the outcome of the litigation and should be familiar with the facts of the case. *Alexander Grant & Co.*, 116 F.R.D. at 589 (citations omitted).

Here, the Court finds the plaintiffs' interests in the case conflict with the interest of other potential class members.

(Cont'd)
interest determination in the first step: is the representative a class member, does the representative have a stake in the outcome, and is the representative familiar with the facts and conditions to be challenged."); *Jackshaw Pontiac, Inc.*, 102 F.R.D. at 191 (stating that "[I]n making the determination of adequacy of representation, the District Court should consider the experience and ability of counsel for the plaintiffs and whether there is any antagonism between the interests of the plaintiffs and other members of the class they seek to represent") (quoting *Cross v. National Trust Life Ins. Co.*, 553 F.2d 1026, 1031 (6th Cir. 1977)).

Appendix C

First, the record shows that Plaintiff Stout already has filed and voluntarily dismissed a separate individual action in state court against these defendants. In this regard, he has preserved his right to pursue that suit should this Court dismiss this case or deny class certification.

In addition, the named plaintiffs obtained repairs or alternatives from the defendants that differ from other class members. As indicated, Plaintiff Stout complains that the 1992 Chevrolet Camaro he purchased had a bent frame. Defendants have offered to fully refund Stout for the purchase of his vehicle. With regard to Plaintiff Brown, defendants have answered her complaints and made repairs covered by her contract. The named plaintiffs have arguably received treatment better than class members. Because defenses and mitigation can be used against the named plaintiffs, they are not adequate representatives of the class.

Also, because the named plaintiffs' claims arise from different transactions and injury, absent class members, perhaps who alleged greater harm, may lose the benefit of having the facts of their separate cases adequately presented. This scenario sufficiently shows that the named plaintiffs may not share the same degree of interest for the claims of other class members.

Because Plaintiffs Stout and Brown fail to satisfy the second prong for adequate representation under Rule 23(a)(4), class action status is not appropriate.

Appendix C

C. Rule 23(b)(3)

The Court next finds the plaintiffs fail to meet the requirements of Rule 23(b)(3). The principal purpose of a class action is to achieve real efficiency and judicial economy. *General Tel. Co.*, 457 U.S. at 159. The requirement that "common" issues predominate over individual issues assures that the goal of judicial economy is served in fact, not just in theory. *In re American Med Sys.*, 765 F.3d at 1085.

To decide whether common issues predominate, this Court need first examine the nature of the plaintiffs' claims and the proof that would be required at trial to support those claims.

Here, a core issue exists whether individual class members of Defendant Byrider relied upon representations or failures to disclose and, if so, what damages proximately resulted.[5] Federal courts have repeatedly held that issues of knowledge and reliance require individual proofs which limit class-wide treatment of fraud-based claims. *See e.g., Andrews v. American Tel. & Tel. Co.*, 95 F.3d 1014, 1025, *reh'g denied*, 104 F.3d 373 (11th Cir. 1996); *Castano v. American Tobacco Co.*, 84 F.3d 734, 745 (5th Cir. 1996) ("[A] fraud class action cannot be certified when individual reliance will be an issue.").

---

5. *See e.g., Burr v. Board of County Comm'rs of Stark County*, 23 Ohio St.3d 69, 73 (1986) (reliance an element of fraud claim); *Black v. Cosentino*, 117 Ohio. App.3d 40, 44 (9th Dist. Dec. 26, 1996) (reliance an element of concealment claim).

Appendix C

Because reliance issues so permeate the plaintiffs' claims, they shut the door on predominance of alleged "common" issues and preclude class certification. *See Andrews*, 95 F.3d at 1023-24; *Mack v. GMAC*, 169 F.R.D. 671, 680 (M.D. Ala. 1996) (denying class certification because reliance issues necessitated by plaintiffs RICO claims made a class action "a managerial nightmare").[6]

---

6. Alternatively, Plaintiffs Stout and Brown argue this case should be certified under Fed. R. Civ. P. Rule 23(b)(2). Rule 23(b)(2) provides a class is maintainable if "the party opposing the class action has acted or refused to act on grounds generally applicable to the class, thereby making appropriate final injunctive relief or corresponding declaratory relief with respect to the class as a whole." *Id.* Rule 23(b)(2) was designed to reach situations where a plaintiff seeks equitable relief. However, the rule generally is not applied where a plaintiff seeks money damages, or where "the appropriate final relief relates exclusively ro predominately to money damages." Fed. R. Civ. P. 23(b)(2), Notes to 1966 Amendment.

Here, the plaintiffs argue the defendants have acted in a manner generally applicable to all prospective class members. Although the plaintiffs do make claim for equitable relief, the First Amended Complaint shows the plaintiffs principally seek money damages. For example, in Count 2, the plaintiffs seek actual damages for alleged violations of the Truth-in-Lending Act. In Count 3, the plaintiffs seek damages for alleged violations of Ohio's Consumer Sales Practices Act. In Count 4, they seek punitive damages on their fraud claims.

Because the plaintiffs sue principally for money damages, the Court denies the motion for certification under Rule 23(b)(2). *See Peters v. Cars to Go, Inc.*, 184 F.R.D. 270, 279 (W.D. Mich. 1998) ("While Plaintiffs do seek declaratory relief in addition to damages, the requested declaratory relief is only incidental to damages, the primary relief sought in this case. Thus, the putative classes cannot be certified under Rule 23(b)(2).").

Appendix C

III. Conclusion

For the reasons above, the Court finds that Plaintiffs Stout and Brown fail to satisfy the prerequisites for class certification under Rule 23(a)(3) and (4). The Court also finds that the plaintiffs fail to meet the requirements to maintain a class action under Rule 23(b)(3). Accordingly, the Court denies the plaintiffs' motion for class certification [Doc. 29].

IT IS SO ORDERED.

s/ James S. Gwin
James S. Gwin
United States District Judge

APPENDIX D — AGREEMENT FOR BINDING ARBITRATION BETWEEN DOCHERTY MOTORS INC. AND SHIRLEY A. BROWN DATED JANUARY 31, 1998

BETTER BUSINESS BUREAU PLEDGED TO ARBITRATE

Agreement for Binding Arbitration

In connection with the Retail Installment Contract and Security Agreement, and all related agreements or promises having anything to do with the purchase of the vehicle described below (hereinafter collectively referred to as the "Contracts"), Docherty Motors Inc. (the "Dealer") and the undersigned purchaser(s) (the "Purchaser(s)") hereby agree as follows:

Except as described below, in the event of a dispute under the terms of the Contracts, the Dealer and the Purchaser(s) hereby agree to submit such dispute to the Better Business Bureau for resolution by binding arbitration according to the rules of the Better Business Bureau.

THE PARTIES HEREBY FURTHER AGREE THAT THE ONLY CLAIM NOT SUBJECT TO THIS AGREEMENT IS A CLAIM BY THE DEALER THAT PURCHASER(S) HAVE FAILED TO MAKE PAYMENTS ON A TIMELY BASIS IN COMPLIANCE WITH THE CONTRACTS, SUCH A CLAIM MAY BE PURSUED IN A COURT OF LAW.

Appendix D

DATE: JAN 31, 1998

VEHICLE YEAR, MAKE, AND MODEL:
91 FORD FESTIVA

VEHICLE IDENTIFICATION: KNJPT06H5M6120203

DEALER:	PURCHASER(S)
DOCHERTY MOTORS INC.	s/ Shirley A. Brown BY SHIRLEY A. BROWN
BY: s/ [illegible] (MANAGER)	(PRINT NAME)

APPENDIX E — DISPUTE RESOLUTION AGREEMENT BETWEEN DOCHERTY MOTORS, INC. AND JAMES D. STOUT DATED MAY 26, 1998

Dispute Resolution Agreement

In connection with the Retail Installment and Security Agreement and all related agreements or promises having anything to do with the purchase of the vehicle described below (referred to jointly as the "Contract"), the Dealer, Purchaser(s) and all assignees agree as follows:

With the exception described below, in the event of a dispute(s) under the terms of the Contract(s), the parties will submit such dispute(s) for resolution by binding arbitration instead of submitting disputes to a court or jury. For example, this applies to all disputes brought under state or federal consumer protection and lending laws. Arbitration will be according to the arbitration rules of the American Arbitration Association.

THE PARTIES AGREE THAT THE ONLY CLAIMS NOT SUBJECT TO THIS AGREEMENT ARE: 1) A CLAIM BY EITHER PARTY SEEKING TOTAL DAMAGES UNDER $10,000; AND 2) CLAIMS RELATING TO REPOSSESSION OR REPLEVIN OF THE VEHICLE.

Purchaser, Dealer, and all assignees shall each pay their own expenses, including attorneys' fees, and shall bear equally the fees and expenses of the arbitrator. Judgment upon any arbitrator's award may be entered by any court having competent jurisdiction.

Appendix E

No class action arbitration may be ordered under this provision, and there shall be no joinder of parties. To the extent permitted by law, the arbitrator(s) shall have no authority to award punitive damages in any dispute.

The parties agree that the vehicle purchase involves interstate commerce and that this Dispute Resolution Agreement shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1-16, as amended.

BY SIGNING BELOW, ALL PARTIES ACKNOWLEDGE THAT THEY HAVE READ THIS DISPUTE RESOLUTION AGREEMENT AND THAT THEY AGREE TO ITS TERMS AND CONDITIONS.

DATE: May 26, 1998

VEHICLE YEAR, MAKE, & MODEL:
92 CHEVROLET CAMARO (TEAL)

VEHICLE IDENTIFICATION: 1G1FP23TXNL153452

DEALER: PURCHASER(S)
DOCHERTY MOTORS, INC.

BY: s/ [illegible] BY s/ James D. Stout

AGREED TO BY ASSIGNEE CNAC

BY: s/ [illegible]

(2)

Supreme Court, U.S.
FILED
JAN 12 2001
CLERK

No. 00-964

In the Supreme Court of the United States

JAMES D. STOUT and SHIRLEY A. BROWN,
Petitioners,

v.

J.D. BYRIDER a/k/a DOCHERTY MOTORS, INC.;
T&J ACCEPTANCE CORPORATION,
d/b/a CARNOW ACCEPTANCE COMPANY,
Respondents.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

RESPONDENTS' BRIEF IN OPPOSITION

LOUIS PAISLEY (0017498)
Counsel of Record
GARY W. JOHNSON (0017482)
WESTON HURD FALLON PAISLEY
& HOWLEY L.L.P.
2500 TERMINAL TOWER
50 PUBLIC SQUARE
CLEVELAND, OH 44113-2241
(216) 241-6602
(216) 621-8369 fax

Counsel for Petitioners

BECKER GALLAGHER LEGAL PUBLISHING, INC.,
CINCINNATI, OHIO 800-890-5001

44PP

RESPONDENTS' STATEMENT OF THE QUESTIONS PRESENTED

1. Did the district court properly compel arbitration under the Federal Arbitration Act ("FAA"), and correctly determine that that FAA, not Ohio substantive law, governs the enforceability of the written arbitration agreements pursuant to the Supremacy Clause?

2. Did the district court properly compel arbitration with neutral, unbiased, and respected third-party tribunals when plaintiffs failed to produce any evidence that the arbitration agreements were unconscionable, and failed to present any evidence concerning the applicable rules of arbitration or fees?

3. Did the district court properly compel arbitration where the record evidence demonstrated a clear and unambiguous written agreement to arbitrate?

4. Did the district court properly exercise its discretion by refusing to certify a class comprised of all defendants' customers from the date of opening when: (a) the claims of the putative class lack commonality as each consumer complaint turns upon the evaluation of individual evidence; (b) plaintiffs' claims are not typical of other putative class members; and (c) plaintiffs are not adequate representatives of the putative class?

CORPORATE DISCLOSURE STATEMENT OF DOCHERTY MOTORS, INC., dba J.D. BYRIDER AND T&J ACCEPTANCE COMPANY, dba CARNOW ACCEPTANCE COMPANY

Pursuant to Rule 29(6) of the Rules of the Supreme Court of the United States, Docherty Motors, Inc., dba J.D. Byrider and T&J Acceptance Company, dba CarNow Acceptance Company, by and through their attorneys, submit their Corporate Disclosure Statement.

Docherty Motors, Inc., and T&J Acceptance Company are Ohio corporations. There are no parent corporations for Docherty Motors, Inc., or T&J Acceptance Company. No publicly held corporations own 10% or more of the stock of Docherty Motors, Inc., or T&J Acceptance Company.

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit is published at 228 F.3d 709. A copy of the opinion is included in Petitioners' Appendix A at 1a-14a.

The opinion of the District Court for the Northern District of Ohio concerning the arbitration issue is published at 50 F. Supp.2d 733. A copy of the opinion is included in Petitioners' Appendix B at 15a-31a.

The opinion of the District Court for the Northern District of Ohio concerning class certification is unpublished. A copy of the opinion is included as Petitioners' Appendix C at 32a-44a.

JURISDICTION

Rule 10 of the Rules of the Supreme Court of the United States provides that this Court may grant a petition for certiorari only for compelling reasons. The character of the issues presented for review by Petitioners does not fit within the examples set forth in Rule 10. The Sixth Circuit's decision in the instant case is not in conflict with another United States Court of Appeals on a particular matter, and does not conflict with a decision from a state court of last resort on an important federal question. Additionally, the Sixth Circuit has not departed from the accepted and usual course of judicial proceedings as to call for this Court's supervisory power.

Petitioners' sole basis for invoking this Court's discretionary jurisdiction is a perceived conflict with the Eleventh Circuit's decision in *Randolph v. Green Tree Financial Corp.*, 178 F.3d 1149 (11th Cir. 1999), *aff'd in*

part, rev'd in part, 2000 WL 1803919 (Dec. 11, 2000). Since the filing of Petitioners' writ for certiorari, this Court's reversed the Eleventh Circuit's refusal to compel arbitration of the consumer's claim.

In sum, Petitioners have not set forth a justifiable basis for invoking this Court's jurisdiction. For these reasons, and those explained below, there were no errors in the lower courts, and there is no basis for extending jurisdiction.

STATUTORY PROVISIONS INVOLVED

Federal Arbitration Act ("FAA"), 9 U.S.C. § 1, *et seq.*
Ohio's Consumer Sales Practices Act ("OCSPA"),
Ohio Rev. Code § 1345.01, *et seq.*
Truth-in-Lending Act ("TILA"), 15 U.S.C. § 1601, *et seq.*

STATEMENT OF THE CASE

I. Nature Of The Case

Petitioners, James D. Stout ("Stout") and Shirley A. Brown ("Brown"), sued Respondents, J.D. Byrider a.k.a. Docherty Motors, Inc. ("Docherty Motors"), and T&J Acceptance Corporation d.b.a. CarNow Acceptance Corporation ("T&J"), for declaratory judgment, fraud, violations of Ohio's Consumer Sales Practices Act ("OCSPA"), Ohio Rev. Code § 345.01, *et seq.*, and violations of the Truth-in-Lending Act ("TILA"), 15 U.S.C. § 1601, *et seq.*, arising from their individual purchase of used motor vehicles in 1998. Petitioners also sought to certify a nebulous and over-reaching class, which would have included every customer who ever purchased a vehicle at Docherty Motors since the company began business in 1995.

Respondents asserted that Petitioners' claims, regardless of merit, were subject to binding arbitration pursuant to the written contracts between the parties, and moved the district court to enforce the agreements and refer the matter to arbitration. Respondents also asserted that class certification was inappropriate as: (1) insufficient commonality existed among the putative class members; (2) Petitioners' claims are not typical of the putative class; and (3) Petitioners were not adequate representatives for the putative class.

After reviewing the extensive briefs submitted by the parties, and a videotape of Petitiioners' transactions, the district court correctly denied Petitioners' motion for class certification, and properly granted Respondents' motion to compel arbitration. The Sixth Circuit correctly affirmed the district court's rulings.

II. Course Of Proceedings And Disposition Below

Petitioners filed suit due to alleged problems they have experienced with used motor vehicles purchased at Docherty Motors. Plaintiffs alleged the following claims in their original complaint: (1) declaratory judgment under the Federal Arbitration Act ("FAA"); (2) violations of the OCSPA; and (3) fraud.[1] Plaintiffs also sought to certify a class described as:

> **All** consumers who purchased an automobile from the defendant, J.D. Byrider a.k.a. Docherty Motors, that was financed through the defendant, T&J Acceptance Corporation d.b.a. CarNow Acceptance Company, in the State of Ohio at any time **from 1993 through the present.** [R. 1, Complaint, at ¶25 (emphasis added)].

In their original complaint, Petitioners' only purported basis for federal jurisdiction was their request for declaratory judgment under the FAA.

On February 16, 1999, Respondents moved to dismiss Petitioners' complaint for lack of subject matter jurisdiction. Recognizing the jurisdictional deficiencies, on March 4, 1999, Petitioners filed an amended complaint purporting to set forth a TILA claim in an improper attempt to invoke federal jurisdiction. Petitioners' amended complaint did not modify the proposed class for certification.

On February 16, 1999, Respondents moved to stay proceedings and compel arbitration, asking the Court to enforce the arbitration agreements entered into by Petitioners. On March 9, 1999, Petitioners opposed Respondents' motion

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[1] In October, 1998, Stout filed a similar complaint (without TILA or class action allegations) in state court, which he later dismissed without prejudice.

to compel arbitration, but did not request a hearing. On April 22, 1999, Respondents filed a reply brief.

Finally, on February 16, 1999, Respondents moved to strike the class action allegations contained in the original complaint. On April 5, 1999, Petitioners moved to certify the proposed class, but did not request a hearing on their motion. Respondents opposed class certification, but requested a hearing, if necessary.

On June 7, 1999, the district court properly denied Petitioners' motion for class certification, and held that Petitioners' claims were not typical of the putative class, that insufficient commonality existed amongst the putative class members, and that Petitioners were inadequate representatives for the putative class.

On June 8, 1999, Respondents moved for summary judgment on all of Petitioners' claims. On that same day, Petitioners moved for partial summary judgment on their TILA claim. In subsequently dismissing Petitioners' amended complaint, the district court did not rule upon the parties' respective motions for summary judgment.[2]

On June 9, 1999, the district court denied Respondents' motion to stay the proceedings, but correctly granted Respondents' motion to compel arbitration. After reviewing the extensive record, including the videotape of Petitioners' transactions, the district court held that the arbitration agreements were enforceable under Ohio and federal law. Accordingly, the district court dismissed plaintiffs' amended complaint "without prejudice to reinstatement should further proceedings be needed after arbitration." [R. 50].

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[2] The district court also did not rule upon defendants' motion to dismiss plaintiffs' amended complaint for lack of subject matter jurisdiction.

Prior to the district court's rulings, Petitioners had ample opportunity to conduct written and deposition discovery. Respondents answered extensive written requests for production of documents. Petitioners deposed eight (8) of the individuals and corporate representatives.

Petitioners refused to submit their individual claims to binding arbitration, and filed this appeal. Petitioners asked the district court to stay enforcement of its order compelling arbitration, but the district court has not granted the requested relief. Respondents stand ready to speedily resolve Petitioners' claims through arbitration as set forth in the individual agreements, and as ordered by the district court.

III. Statement Of The Facts[3]

A. Docherty Motors and T&J Are Small, Closely-Held Ohio Corporations That Sell Used Motor Vehicles, Provide Financing for Those Purchasers Who So Opt, and Offer Servicing and Repairs for Their Customers.

Docherty Motors is a small, family owned, and closely-held Ohio corporation with only four shareholders, and has been in the business of selling used motor vehicles since 1995. Only one shareholder is a non-family member. At the time of this lawsuit, Docherty Motors owned three J.D. Byrider franchises in northern Ohio, located in

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[3] Not only do plaintiffs mischaracterize deposition testimony, but they also cited deposition testimony in their briefs before the Sixth Circuit that **is not** part of the record. [*See* Appellant's Brief, at 4-7]. Pages 28, 43, 55-56, 64, 78, and 107 of Tom Docherty's transcript, and pages 20, 28, 36, and 71 of Jim Smith's transcript are not part of the record as cited by plaintiffs.

Sandusky, Medina, and Akron, and maintains a corporate office in Amherst, Ohio.

Contrary to Petitioners' representation, each used motor vehicle offered for sale by Docherty Motors is not "priced at $7,000.00." [Petitioners' Brief, at 2]. Rather, Docherty Motors seeks to purchase and resell used motor vehicles that fall within a certain resale value range. Docherty Motors generally does not purchase and resell vehicles that fall substantially above or below this acceptable range.

While customers have made cash purchases of used motor vehicles from Docherty Motors, and have also obtained financing from traditional third-party sources such as banks and credit unions, Docherty Motors does offer financing through T&J to those individuals who may not qualify for traditional financing. T&J finances transactions involving individuals with unfavorable credit records, but also finances transactions for customers with favorable credit records. For those sales financed internally, Docherty Motors assigns the retail installment contracts to T&J. [R. 49, Exhibits A, B, C, D, and E].

T&J is also a small, family-owned, and closely-held Ohio corporation, but with only two shareholders. Both shareholders are family members. T&J owns three CarNow Acceptance Corporation ("CNAC") franchises. A CNAC franchise is located at each Docherty Motors' dealership. [R. 28, Exhibits 2; R. 49, Exhibits A, B, C, D, and E].

Docherty Motors maintains a service department at each dealership, which performs repairs only on vehicles purchased at Docherty Motors. It generally purchases its vehicles from a limited group of wholesalers, against which it has full recourse to return the vehicle if it is defective. By dealing with the same wholesalers, Docherty Motors seeks to purchase higher quality used vehicles within its pricing criteria. [R. 49, Exhibits A, C, F, G, and O].

Before sale, each vehicle is inspected by a Docherty Motors' buyer and salesman. All vehicles sold are "safety checked." A customer may bring the vehicle into the service department for a safety check and free repairs on certain, specified items pursuant to a "We Owe" agreement if the repairs were not done before sale. The Buyer's Guide, affixed on a window in every vehicle, urges customers to take vehicles for a pre-purchase inspection at a mechanic of their choice. [R. 28, Exhibit 2, at 91; R. 49, Exhibits A, F, G, and H].

B. **During the Closing of the Vehicle Purchase, T&J Presents the Transactional Documents Individually to Each Customer for His/Her Review, Reading, and Questioning.**

A trained CNAC representative handles the "closing" on each customer's purchase, which includes the individual presentation of a number of documents for the customer's review and signature. The documents presented include: a power of attorney for vehicle registration and license, federal odometer statement, Ohio temporary registration application, Best Extended Service Agreement (if applicable), Buyer's Order, Retail Installment Contract and Security Agreement, insurance responsibility form, Buyer's Guide, check list, and customer survey questionnaire. [R. 49, Exhibits D, at 42-43, and M].

At the Sandusky dealership, the CNAC representative handling the closing on plaintiffs' transactions was Wendell Gaddie (hereinafter, "Gaddie"). Since opening in 1995, the Sandusky dealership has had other CNAC representatives beside Gaddie. Closings at the Sandusky dealership are videotaped for training and quality assurance purposes with the customer's knowledge. [R. 49, Exhibit D]. The camera is mounted on the wall of the office and a sign is on the table.

Plaintiffs allege that defendants follow a deliberate, standardized procedure in each vehicle purchase. While each transaction is a separate and unique event (as determined by the purchaser, vehicle, and salesman), a standard procedure is utilized to provide customers with an opportunity to read, review, and question the transactional documents before signing them. This is amply demonstrated in the videotape of plaintiffs' own, individual transactions, and videotapes of other putative class members. [R. 8, Exhibit C; R. 31; R. 41, Exhibit M].

As shown in the videotapes, Gaddie provided a brief explanation of each document upon presentation, advised plaintiffs to ask questions concerning the documents presented for their review and signature, and individually presented each document for plaintiffs' review and signature.[4] Plaintiffs had an opportunity to fully review and read each document before signing, could ask questions about the documents before signing, and were not the subject of pressure tactics to induce their signatures. [R. 8, Exhibit C].

Gaddie attempts to answer customers' questions if he is able. If a customer asks a question that is outside his knowledge or expertise, he attempts to obtain an answer from someone more knowledgeable. The videotape reveals that Gaddie answered each and every question raised by plaintiffs, and spent between twenty and thirty minutes with each plaintiff in reviewing their documentation. [R. 8, Exhibit C].

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[4] Plaintiffs' complaints alleged that defendants "fan" documents in front of customers with only the signature lines exposed so as to prevent document review. [R. 1, at ¶¶15-16; R. 17, at ¶¶15-16]. There is no mention of this allegation in plaintiffs' brief. As demonstrated by the record, including the videotapes, there was never any evidence to support plaintiffs' "fanning" allegation. [R. 8, Exhibit C; R. 41, Exhibits B, D, and M].

C. **Plaintiffs Had an Opportunity to Individually Read and Review the Arbitration Agreements and Had an Opportunity to Ask Any Questions About the Agreements.**

As shown in the videotapes, Gaddie individually presented a separate, written arbitration agreement to plaintiffs for their review, questioning, and signature.[5] The arbitration agreements were in writing, set forth on pages separate from the other documentation, were in normal and bold-faced type, and were not buried in small print in the other transactional documentation. [R. 1, Exhibits 3 and 4; R. 17, Exhibits 3 and 4]. Docherty Motors did not begin utilizing written arbitration agreements until late 1997.

At the time of presenting the arbitration agreement to Stout, Gaddie provided a hypothetical, but practical, example of how the agreement could be invoked. He did not describe the arbitration agreement as a "free benefit." Gaddie did not utilize a hypothetical example in his explanation of the agreement to Brown. [R. 8, Exhibit C].

As evidenced by the videotape, plaintiffs read and signed the agreements, and had an opportunity to ask Gaddie any questions about the agreements. In particular, the videotape reveals that, of the various documents in her transaction, Brown spent the longest time reviewing the arbitration agreement before signing. [R. 8, Exhibit C].

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[5] Not all customers at Docherty Motors from 1993 to 1998 were presented with arbitration agreements for signature. In fact, some deal jackets lack an executed arbitration agreement by the parties. [R. 28, Exhibit 5, Affidavit of Terry Hall; R. 49, Exhibit M].

The written arbitration agreements in plaintiffs' transactions differ in their language[6] and in the neutral, unbiased third-party facilitating the arbitration.[7] However, both agreements require arbitration of plaintiffs' current disputes.

D. **T&J's Extension of Credit Is Not Conditioned Upon a Customer's Decision to Purchase (or Not Purchase) an Extended Service Agreement.**

As clearly set forth in the Buyer's Guide, vehicles purchased at Docherty Motors come with a limited warranty, covering certain items, which lasts for three months or 3,000 miles, whichever comes first. As indicated on the Buyer's Guide, customers may purchase an extended service agreement, which covers the same items as the limited warranty, but lasts for a longer term. The duration and price of the extended service agreement have fluctuated over the years. [R. 49, Exhibits H, I, and K].

The extension of credit is not conditioned upon a customer's decision to purchase the extended service agreement. Customers need not purchase the extended service agreement. Customers have purchased vehicles from

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[6] Under Brown's agreement, the only dispute not subject to arbitration is a claim by defendants that she failed to make payments on a timely basis in compliance with the contracts. Under Stout's agreement, the only claims not subject to arbitration were claims under $10,000, and claims relating to repossession and replevin of the vehicle.

[7] Under Brown's agreement, any arbitration is to be conducted through the Better Business Bureau ("BBB"). Under Stout's agreement, any arbitration is to be conducted through the American Arbitration Association ("AAA").

Docherty Motors, and financed their purchase through T&J, without the purchasing the extended service agreement. There is no financial incentive for defendants' employees if a customer purchases an extended service agreement. [R. 49, Exhibits A, B, D, H, and I].

The written extended service agreement (if selected by the customer) is presented to each customer for his/her review and signature. The customer also acknowledges purchasing the extended service agreement on a number of transactional documents, including the Buyer's Guide, Buyer's Order, and Retail Installment Contract and Security Agreement. These documents clearly set forth in the terms and purchase price of the extended service agreement. [R. 8, Exhibit C; R. 49, Exhibits D, J, K, L, and M].

Plaintiffs each purchased an extended service agreement, lasting eighteen months or 18,000 miles, for $895. In their transactions, plaintiffs acknowledged purchasing the extended service agreement on the Buyer's Guide, Buyer's Order, and Retail Installment Contract, and understood that they were paying an additional amount for the service agreement. A number of customers have utilized the extended service agreement for repairs, including Brown, who received a complete engine replacement. [R. 41, Exhibits C, D, E, and H; R. 49, Exhibits N, O, P, Q, R, and S].

E. Each Used Vehicle Purchase at Docherty Motors Is a Separate and Unique Transaction.

In an attempt to extort a class settlement that is disproportionate to the value of their actual claims, plaintiffs seek to characterize each and every vehicle purchase at Docherty Motors as a carbon copy of every customer's experience. As part of their boilerplate allegations, plaintiffs maintain that every purchaser of a used vehicle from Docherty Motors since the date of its operation has "had to have their

vehicle repaired at a great cost and inconvenience to them." [R. 17, at ¶26]. This is untrue and unproven in the record.

Leaving aside the sheer improbability of such an allegation, not all purported class members have had their vehicles repaired "at a great cost" to them. Their problems, if any, have been as divergent as the makes and models of the vehicles that they purchased. Some have paid for their repairs out-of-pocket. Others have had significant repairs, such as complete engine replacement, made by Docherty Motors at no cost to them, minus the deductible. Others have had no problems at all. Some customers are still driving their vehicles. Others are not. [R. 41, Exhibits A, B, C, D, E, H, and L]. More than 35% of Docherty Motors' customers are repeat or referred buyers.

While defendants may utilize certain "form" documents in each transaction, one cannot broadly generalize about what transpired in every transaction conducted at Docherty Motors since its inception in 1995. Each vehicle purchase is a separate, unique transaction due to: (1) the vehicle purchased, including its make, model, mileage, year, and purchase price; (2) the driver of the vehicle; (3) the purchaser's preferences; (4) the salesmen involved; and (5) the documents involved. [R. 41, Exhibits A, B, C, D, E, H, and L].

Each customer has specific needs and different concerns when purchasing a used vehicle. Some want additional protection against possible repairs. Some do not. Accordingly, plaintiffs (as well as prospective class members) asked their respective salesmen different questions (if any) about the vehicles, transactional documents, warranties, and the extended service agreement. Some customers, including plaintiffs, had previously purchased service contracts in association with prior consumer transactions, including the purchase of motor vehicles. [R. 41, Exhibits A, B, C, D, E, H, and L].

SUMMARY OF THE ARGUMENT

Plaintiffs' appeal arises from two separate orders entered by the district court. The first order compels plaintiffs to submit their individual claims to binding arbitration as freely agreed by the parties. The district court correctly determined that the FAA, not Ohio substantive law, governs the enforceability of the written arbitration agreement, and properly granted defendants' motion to compel arbitration.

There is no evidence in the record that the arbitration agreements constitute unenforceable "adhesion" contracts. Rather, the record clearly reflects that: (1) plaintiffs had an opportunity to read and review their individual written arbitration agreement; (2) each plaintiff read their individual arbitration agreement; (3) each plaintiff had an opportunity to ask questions concerning their individual arbitration agreement; and (4) each plaintiff signed the arbitration agreement. The evidence supports the district court's conclusion that the parties agreed to arbitrate the disputes before this Court.

Additionally, Plaintiffs presented no evidence to the district court as to the alleged unconscionability of these agreements, presented no evidence as to the actual arbitration rules for the Better Business Bureau or American Arbitration Association, and presented no evidence as to the actual arbitration fees for each organization.

Finally, the arbitration agreements do not defeat the purposes of CSPA or TILA, and do not leave plaintiffs without a legal remedy. An arbitrator still has the power to award plaintiffs relief under CSPA, TILA, and common-law fraud. An arbitrator could apply the applicable law, assess plaintiffs' claims, and award plaintiffs compensatory damages, statutory damages, attorney's fees, or punitive damages, if the underlying facts so warranted.

The second order addressed the propriety of class certification. The district court properly exercised its discretion by denying plaintiffs' motion for class certification for a number of reasons. First, the district court properly concluded that each purported class member's claim arises out of an individual and unique consumer transaction, rooted in individual proof of injury, the particular cause of each injury, and individual aspects of each consumer transaction. Second, the district court properly concluded that plaintiffs' claims are not typical of the purported class members. Third, the district court properly concluded that plaintiffs are not adequate representatives of the proposed class.

Plaintiffs are asking this Court to ignore individual negotiations and gloss over individual details of each transaction that warrant against class certification. Each transaction dealt with different cars, different warranties, different distinct repairs, if any, some under warranty and some not under warranty. The individual issues of alleged fraud, signatures, documents, witnesses, and videotapes cannot all be generalized.

LAW AND ARGUMENT

I. THE DISTRICT COURT PROPERLY GRANTED DEFENDANTS' MOTION TO COMPEL ARBITRATION.

A. Standard of Review

This Court reviews a district court's ruling on a motion to compel arbitration *de novo*. *See Ferro Corp. v. Garrison Industries*, 142 F.3d 926, 931 (6th Cir. 1998).

B. Plaintiffs' Arbitration Agreements Are Enforceable Under the FAA.

The parties agree that the arbitration agreements are governed by the FAA. Section 2 of the FAA provides that written agreements to arbitrate in a contract involving transactions in interstate commerce "shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract." 9 U.S.C. §2. Section 4 gives district courts authority to compel arbitration when a party neglects or refused to comply with an arbitration agreement. 9 U.S.C. §4.

The FAA establishes a federal policy favoring arbitration, and requires district courts to rigorously enforce arbitration agreements. The FAA was designed to override the judiciary's long-standing refusal to enforce arbitration agreements, and to place such agreements on the same footing as other contracts. The purpose of the FAA was to relieve court congestion and provide parties with a speedier and less costly alternative to litigation. *Allied-Bruce Terminix Cos. v. Dobson*, 513 U.S. 265, 270, 280 (1995); *Mastrobuono v. Shearson Lehman Hutton, Inc.*, 514 U.S. 52, 52-54 (1995); *Volt v. Information Sciences, Inc. v. Bd. of Trustees of Leland Stanford Junior Univ.*, 489 U.S. 468 (1989); *Shearson/American Express, Inc. v. McMahon*, 482 U.S. 282 (1987); *Southland Corp. v. Keating*, 465 U.S. 1, 10 (1984); *Ferro Corp.*, 142 F.3d at 932, 938.

Upon a party's request to compel arbitration, a district court has four tasks: (1) to determine whether the parties agreed to arbitrate the dispute; (2) determine the scope of the agreement; (3) if federal claims are asserted, to determine whether Congress intended the claims to be subject to arbitration; and (4) if some, but not all of the claims are arbitrable, to determine whether to stay the proceedings pending arbitration. *Wedding v. University of Toledo*, 884 F. Supp. 253 (N.D. Ohio 1995); *H & M Charters, Inc. v. Reed*, 757 F. Supp. 859, 864 (S.D. Ohio 1991);*Compuserve, Inc. v. Vigny Int'l Finance, Ltd.*, 760 F. Supp. 1273 (S.D. Ohio

1990). Plaintiffs do not find fault with the district court's findings and conclusions on the second and fourth issues. The district court reviewed all four issues, and correctly resolved each issue in favor of arbitration.

1. **The District Court Properly Concluded That the Parties Entered a Written Agreement to Arbitrate.**

Plaintiffs incorrectly contend that the district court erred in compelling arbitration because there was no "agreement" between the parties to arbitrate their disputes. [Appellants' Brief, at 12]. The record, especially the videotapes, demonstrate that the parties did agree to arbitrate their disputes. Plaintiffs were knowledgeable consumers, and had each previously purchased used vehicles. Plaintiffs each engaged in lengthy discussions with Gaddie, in which he individually sat and presented the transactional documents for their review and questions before execution. Gaddie encouraged plaintiffs to ask questions if they did not understand any of the transactional documents. [R. 8, Exhibit C].

Gaddie also provided plaintiffs a brief explanation of each document upon presentation. If plaintiffs asked a question about the transaction, Gaddie answered the inquiry and provided further explanation. If he could not answer a particular question, he would have sought out a more knowledgeable source for the information. [R. 8, Exhibit C].

When Gaddie presented the arbitration agreement to Stout, in an attempt to explain the document, he provided a real-world scenario of how the agreement could be invoked. He did not provide a pragmatic example to Brown. While plaintiffs try to characterize this as a "misleading" explanation, Gaddie had no affirmative duty to explain the legal effect of an arbitration agreement. Additionally, parties can still be bound by a written arbitration agreement, even if

neither party fully understanding the ramifications. Nonetheless, if plaintiffs had asked questions about the agreement outside of Gaddie's knowledge, he would have sought an answer from a more knowledgeable source. [R. 8, Exhibit C].

The record also reveals that: (1) the arbitration agreements were set forth in separate documents, in regular and bold-print type, and were not buried in small print in the transactional documents; (2) plaintiffs read and reviewed the arbitration agreements; (3) plaintiffs had an opportunity to ask Gaddie questions about the agreements; (4) plaintiffs did not ask Gaddie any questions about the agreements; and (5) plaintiffs signed the agreements, thus representing that they understood the agreements. The agreements expressly and clearly state that the parties agree to resolve their disputes through binding arbitration through a neutral, unbiased, and respected third-party.

Accordingly, the district court properly concluded that the parties agreed to arbitrate their disputes in accordance with the terms of the written arbitration agreements.

2. **The District Court Correctly Held That, Pursuant to the FAA, Congress Intended Plaintiffs to Arbitrate the Claims Raised Against Defendants.**

A district court should not deny a request for arbitration unless the it may say with positive assurance that the arbitration clause is not susceptible to an interpretation that covers the dispute. Any doubt regarding the applicability of an arbitration clause is to be resolved in favor of arbitration. *Moses H. Cone Memorial Hospital v. Mercury Construction Corp.*, 460 U.S. 1, 24-25 (1983); *Ferro Corp*, 142 F.3d at 932.

The arbitrability of a dispute is determined on the basis of the contract entered into by the parties. If a contract evidences an intent to refer any disagreements to arbitration, a party cannot unilaterally decide to seek redress in the courts at the last minute. Parties are required to arbitrate their disputes absent the most extenuating of circumstances. *Southland Corp.*, 465 U.S. at 24;*Dean Witter Reynolds, Inc. v. McCoy, 995 F.2d 649 (6th Cir. 1993)*; *Sutton v. Cleveland Bd. of Educ.*, 958 F.2d 1339 (6th Cir. 1992); *Asper v. Shearson American Express, Inc.*, 768 F.2d 106 (6th Cir. 1985).

The district court correctly held that plaintiffs' claims were subject to arbitration under the FAA. Under both version of their complaints, plaintiffs affirmatively sought declaratory relief under the FAA. Further, the arbitration agreements require plaintiffs to arbitrate all disputes arising "under the terms of the `Contracts.'" Plaintiffs' claims for fraud, violations of CSPA, and TILA relate to the purchase of their vehicles and arise under their contracts with defendants. Finally, these claims address whether the entire contract was fraudulently induced. Accordingly, these claims fall within the scope of the FAA.

A district court's duty to enforce an arbitration agreement under the FAA is not diminished when a party bound by the agreement raises claims founded on statutory rights. *McMahon, supra.* (RICO);*Daisy Mfg. Co. v. NCR Corp.*, 29 F.3d 389 (8th Cir. 1994) (RICO);*Hill v. Gateway 2000, Inc.*, 105 F.3d 1147 (7th Cir. 1997) (RICO); *Matthews v. Rollins Hudig Hall Co.*, 72 F.3d 50 (7th Cir. 1995) (ADEA); *Kropfelder v. Snap-On Tools Corp.*, 859 F. Supp. 952 (D.Md. 1994) (ERISA);*Dorsey v. H.C.P. Sales, Inc.*, 46 F. Supp.2d 804, 808, n.5 (N.D. Ill. 1999) (TILA) (cited on page 13 of Appellants' Brief); *Goodwin v. Ford Motor Credit Company*, 970 F. Supp. 1007 (M.D. Ala. 1997) (TILA). Nothing in the FAA for implies a presumption against

arbitration of statutory claims, including those protecting consumer interests. Plaintiffs' TILA claims also presumptively involve interstate commerce, thus placing these claims within the scope of the FAA. *Mitsubishi Motors v. Soler Chrysler-plymouth, Inc.*, 473 U.S. 614, 626 (1995).

Federal courts, including the United States Supreme Court, have also routinely held that the FAA applies to consumer complaints, especially those made under TILA. *Dobson*, 513 U.S. at 280 (residential termite extermination contract);*Dorsey*, 46 F. Supp.2d at 808, n.5 (home improvement services); *Hill*, 105 F.3d at 1147 (personal computer); *Goodwin*, 970 F. Supp. at 1007 (motor vehicles). In response, plaintiffs only cite one federal court opinion that rejects application of arbitration agreements in TILA dispute, which is easily distinguishable from the case at bar, as plaintiffs have presented no evidence that: (1) the arbitration provided in plaintiffs' agreements are an ineffective and inaccessible forum; or (2) the arbitration fees or procedures are substantively unfair. Additionally, plaintiffs' arbitration agreements specify which organization's rules will govern the arbitration, *i.e.*, AAA or BBB. [Appellants' Brief, at 18-19, *citing Randolph v. Green Tree Financial Corp.*, 178 F.3d 1149, 1157-58 (11th Cir. 1999)].[8]

Accordingly, the district court properly held that the FAA required arbitration of plaintiffs' claims.

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[8] Notably, in *Randolph*, the Eleventh Circuit refused to "decide whether the TILA precludes all arbitration agreements." *Randolph*, 178 F.3d at 1149. Implicit in this statement is that the FAA permits arbitration of some TILA disputes, depending upon the agreement.

3. Plaintiffs' Arbitration Agreements Are Conscionable, and Are Not Subject to Ohio's Substantive Law on the Enforceability of Arbitration Agreements.

Plaintiffs contend that the enforceability of the arbitration agreements is governed by Ohio case law, and that their agreements are unenforceable as against Ohio public policy. While a district court may look to State law to determine if an arbitration agreement was actually formed, the FAA does not permit a district court to utilize substantive State law to determine the conscionability of the agreement itself.

The Sixth Circuit has recognized only two limitations on the enforceability of arbitration agreements subject to the FAA: (1) they must be part of either a maritime contract or a contract dealing with interstate commerce; and (2) arbitration agreements may be revoked "upon grounds as exist at law or in equity for the revocation of any contract." Further, the Supreme Court sees "nothing in the act indicated that the broad principle of enforceability is subject to any additional limitations of [S]tate law." *Ferro Corp.*, 142 F.3d at 932, *citing Southland Corp.*, 465 U.S. at 10-11.

Where an agreement to arbitrate has not been fraudulently induced, all other issues falling within that agreement are to be sent to arbitration. Only claims for fraudulent inducement of the arbitration clause itself may be heard by the district court. Plaintiffs' allegations of fraudulent inducement in the entire contracts are to be decided through arbitration. *Prima Paint Corp.v. Flood & Conklin Mfg. Co.*, 388 U.S. 403-04 (1967); *Ferro Corp.*, 142 F.3d at 933, 935.

The Supremacy Clause does not permit Ohio to mandate judicial resolution of disputes when the parties agree to arbitration under the FAA. The FAA withdraws power

from the States to require a judicial forum for resolution of claims which the contracting parties agreed to arbitrate. For cases under the FAA, this statute governs all aspects of arbitration procedure and preempts inconsistent State law. *See Doctor's Associates, Inc. v. Casarotto*, 517 U.S. 681, 688 (1996); *Moses H. Cone*, 460 U.S. at 24; *see Dobson*, 513 U.S. at 270-71; *Southland Corp.*, 465 U.S. at 10.

Plaintiffs contend that their arbitration agreements are unenforceable adhesion contracts, and rely upon the Ohio Supreme Court's decision in *Williams v. Aetna Financial Company*, 83 Ohio St.3d 464 (1998), *cert. denied*, 119 S.Ct. 1357 (1999). The *Williams* decision is not dispositive of the issues raised in this litigation. In *Williams*, the Ohio Supreme Court construed its obligation to compel arbitration under R.C. 2711.01, *et seq.*, Ohio's Arbitration Act. This obligation is not present in the instant case.

However, even under the articulated principles of unconscionability set forth in *Williams*, the district court correctly compelled arbitration. In Ohio, a party sufficiently states a claim that an arbitration agreement is unconscionable or takes the form of an adhesion contract by showing that: (1) the contract terms are one-sided or unreasonably unfavorable to the other party; (2) that disparity between the parties' bargaining power denies the less advantaged party meaningful choice in accepting the terms of the contract; and (3) the less advantaged party cannot obtain their "desired product or services except by acquiescing in form contract." *Williams*, 83 Ohio St.3d at 482.

The district court correctly held that the arbitration agreements were not unconscionable or adhesion contracts under this standard. Both agreements required submission to legitimate arbitration panels. Plaintiffs presented no evidence that AAA or BBB would not be able to fairly adjudicate their claims, presented no evidence as to the applicable rules for each organization, and presented no evidence as to the fees

associated with arbitration before either organization. Unlike *Williams*, without the applicable rules and fees, there is insufficient evidence to allow plaintiffs to avoid their agreement to arbitrate.

However, even if plaintiffs did present such evidence, the FAA does not authorize federal courts to evaluation plaintiffs' arbitration costs on a case-by-case basis when determining whether to compel arbitration. "Whatever may be said pro and con about the cost and efficiency of arbitration . . . is for Congress and the contracting parties to consider." A consumer may not escape his or her contractual obligation to arbitrate her disputes by later complaining about the cost. *Dorsey*, 46 F. Supp.2d at 807-08;*Hill, 105 F.3d at 1151*;*Green Tree Financial Corp. Alabama, et al. v. Randolph*, 2000 WL 1803919 at *1 (U.S. Dec. 1, 2000).

Additionally, plaintiffs presented no evidence that defendants would have refused to sell the vehicles had they refused to sign the arbitration agreements. Plaintiffs also presented no evidence that they were only able to purchase similar vehicles at Docherty Motors, and that they could only purchase similar vehicles by agreeing to the arbitration agreements.[9]

Plaintiffs also contend that the arbitration agreements unjustly abrogate their rights under the CSPA and other statutes. [Appellants' Brief, at 16]. Plaintiffs also allege that the arbitration agreements attempt to eliminate any and all legal causes of action the consumer may have for any violations of state or federal consumer protective or lending laws against the defendants. These allegations lack support in

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[9] In fact, Brown repeatedly emphasizes that she purchased and financed her vehicle at Docherty Motors due to the weekly payment schedule for her daughter, and not because she was unable to obtain financing from a traditional third-party. [R. 18, at 3].

the record. As under the CSPA, an arbitrator can still award compensatory damages, treble damages, statutory damages, punitive damages, costs, attorney's fees, and other relief accorded under the statutes through which plaintiffs seek relief. Neither arbitration agreement precludes the same relief to which plaintiffs would be entitled to in a judicial forum. The arbitration agreements merely provide for the appropriate forum for resolving any disputes, which is consistent with the purpose and intent of the FAA. Notably, plaintiffs did not present any evidence concerning the rules or costs governing their arbitrations. *Green Tree Financial Corp. Alabama, et al. v. Randolph*, 2000 WL 1803919 at *1 (U.S. Dec. 1, 2000).

II. THE DISTRICT COURT PROPERLY EXERCISED ITS DISCRETION BY DENYING PLAINTIFFS' MOTION FOR CLASS CERTIFICATION.

A. Standard of Review

This Court reviews a district court's ruling on class certification to see if an abuse of discretion occurred. The district court retains broad discretion in determining whether an action should be certified as a class action, and its decision, based upon the particular facts of the case, should not be overturned absent a showing of abuse of discretion. *Sterling v. Velsicol Chemical Corp.*, 855 F.2d 1188, 1198 (6th Cir. 1988).

B. The District Court Properly Exercised Its Discretion By Denying Plaintiffs' Motion for Class Certification.

Plaintiffs sought to certify a class comprising of **all** Docherty Motors from the beginning of its operation. Plaintiffs alleged that defendants had defrauded **every member** of this class by selling them a used vehicle with concealed damage, and that **every member** had incurred substantial repairs to remedy the damage. [R. 1, at ¶¶8-34; R. 17, at ¶¶8-34].

Rule 23 of the Federal Rules of Civil Procedure governs class action lawsuits. Fed.R.Civ.P.23. A district court may certify a class if all the procedural requirements of Rule 23(a) are met, and if certification is appropriate under Rule 23(b)(1), (b)(2), or (b)(3). Rule 23(a) sets forth the following four prerequisites to class certification: (1) the class must be so numerous that "joinder of all members is impracticable"; (2) there must be "questions of law or fact common to the class"; (3) the claims of the representative party must be "typical" of those of the class; and (4) the representative party must "fairly and adequately protect the interests of the class." Fed. R. Civ. P. 23(a).

The party seeking class certification bears the burden of proof. *General Tel. Co. of the Southwest v. Falcon*, 457 U.S. 147, 161 (1982); *In re American Med. Sys., Inc.*, 75 F.3d 1069, 1079 (6th Cir. 1996). District courts must conduct a rigorous analysis into whether the prerequisites are met before certifying a class. *Sprague v. General Motors Corp.*, 133 F.3d 388, 397 (6th Cir.), *cert. denied*, 118 S.Ct. 2312 (1998); *In re American Med. Sys., Inc.*, 75 F.3d at 1078-79;*Kutschbach v. Davies*, 885 F. Supp. 1079 (S.D. Ohio 1995); *Jackshaw Pontiac, Inc. v. Cleveland Press Pub. Co.*, 102 F.R.D. 183, 196 (S.D. Ohio 1984). Under this standard, the district court properly exercised its discretion by denying plaintiffs' motion for class certification.

1. **The District Court Properly Exercised Its Discretion By Finding That Plaintiffs' Claims Were Not Typical of the Proposed Class.**

Under Fed. R. Civ. P. 23(a)(3), a party seeking class certification must show that his or her claims are typical of other potential class members. Fed. R. Civ. P. 23(a)(3). Rule 23(a)(3) exists to ensure that the claims of the representative party are similar enough to the claims of the class so that the representative will adequately represent all members of the class. Fed. R. Civ. P. 23(a)(3). Any inquiry into typicality under Rule 23(a)(3) requires a comparison of the claims or defenses of the representative with the claims or defenses of the class. *See Hiatt v. County of Adams, Ohio*, 155 F.R.D. 605, 609 (S.D. Ohio 1994).

"[A] class representative must be part of the class and `possess the same interest and suffer the same injury' as the class members." *Falcon*, 457 U.S. at 156. This Court has described the typicality requirement as follows:

> Typicality determines whether a sufficient relationship exists between the injury to the named plaintiff and the conduct affecting the class, so that the court may properly attribute a collective nature to the challenged conduct .
>
> . . .

Sprague, 133 F.3d at 399. This Court has also summarized this legal standard simply: "[a]s goes the claim of the named plaintiff, so go the claims of the class." *Id.*

The district court properly exercised its discretion by finding that plaintiffs failed to show a sufficient relationship between their experiences and the diversity of experiences of putative class members. Plaintiffs' claims are tied to specific facts about warranties, each vehicle's condition at the time of sale, each buyer's knowledge at the time of sale, and repairs and whether those repairs are defendants' responsibility.

Plaintiffs and the putative class members purchased different vehicles, from different salesman, for different prices and reasons. Each vehicle had different prior owners and an unique history of use and care.

Plaintiffs and putative class members purchased their respective vehicles under different circumstances. Plaintiffs had different financing and lending needs. Some putative class members kept their financing obligation, others did not. Stout financed his vehicle through T&J due to a poor credit record; whereas, Brown did so because of the weekly payment schedule for her daughter

Plaintiffs both purchased service contracts in prior consumer transactions, including motor vehicles; whereas, some putative class members had never purchased a motor vehicle or service contract before. Some putative class members chose to purchase vehicles without the extended service agreement. As noted by another district court in the Sixth Circuit, under similar facts, a customer's individual decision to purchase (or not purchase) an extended service agreement militates against class treatment. *Peters v. Cars to Go, Inc.*, 184 F.R.D. 270 (W.D. Mich. 1998).

Plaintiffs have had differing difficulties with their vehicles, and have received different responses to their requests for repairs. Stout's alleged problems with his Camaro do not affect its performance, and have not necessitated repairs; whereas, Brown's alleged problems have necessitated repairs, including a complete engine replacement covered under Docherty Motors' extended service agreement. Accordingly, the adequate remedy for each putative class member will differ. Some putative class members do not claim any problems with their vehicles, while others may simply require repairs to be satisfied.

In sum, simply because Plaintiffs may be able to prove that s/he was injured, it does not necessarily follow that <u>all</u> Docherty Motors customers from the beginning of time will

be able to prove their case. The substantial differences among putative class members described above militate against a finding of typicality. Accordingly, the district court properly held that plaintiffs had failed to satisfy the typicality requirement.

2. The District Court Properly Exercised Its Discretion By Finding That Plaintiffs Were Not Adequate Representatives for the Class.

Under Rule 23(a)(4), a plaintiff seeking to represent a class must show that s/he will fairly and adequately represent and protect the interests of the class. Fed.R.Civ.P.23(a)(4). This requirement is "essential to due process, because a final judgment in a class action is binding on all class members." Adequacy of representation is measured by two standards. First, class counsel must be qualified, experienced, and generally able to conduct the litigation. Second, class members must not have interests that are antagonistic to one another. *In re American Med. Sys.*, 75 F.3d at 1083; *Jackshaw Pontiac*, 102 F.R.D. at 191.

The district court correctly held that the named plaintiffs have interests that are antagonistic to the proposed class members. Interests are antagonistic when there is evidence that the representative plaintiffs appear unable to "vigorously prosecute the interests of the class." *In re American Med. Sys.*, 75 F.3d at 1083. Inability to prosecute the class' interest may arise due to a conflict of interest with other members of the class. *Id.* A representative plaintiff also should have a stake in the outcome of the litigation and should be familiar with the facts of the case. *Alexander Grant & Co. v. McAlister*, 116 F.R.D. 583, 589 (S.D. Ohio 1987).

Some of the putative class members, including Brown, have obtained repairs and treatment that have differed from other class members. Plaintiffs assume that the district

court's corollary finding was based upon settlement discussions;[10] however this is not the case. Brown has received a complete engine replacement and other repairs under the extended service agreement. Despite falling extremely behind in his payments, Stout has been able to arrange for alternative schedules from T&J without an explanation. Despite these arrangements, Stout has been deficient in his payments, and defendants have still not repossessed his vehicle. Not all putative class members have received such treatment. Because defenses and mitigation may be utilized against plaintiffs, they are not adequate representatives of the class.

Finally, because plaintiffs' claims arise from different transactions and injury, absent class members, who allege greater or lesser harm, may lose the benefit of having the facts of their separate cases adequately presented. For example, the proper statute of limitations will be a heavily contested issue in any trial of putative class member claims.[11] Plaintiffs, unlike some putative class members, appear to have

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[10] There is no evidence on the record to support plaintiffs' reference to settlement discussions at the district court on May 27, 1999. Plaintiffs' characterization of the district court's handling of the settlement conference is erroneous, and irrelevant to the issues at bar. Defendants acknowledge that, at the settlement conference, they reiterated their longstanding offer to refund plaintiffs' money and accept the vehicles back, or to make necessary repairs.

[11] Plaintiffs seek to represent a class of customers dating back to 1993. The applicable statute of limitations for a TILA claim is one year, and the applicable statute of limitations for a fraud claim under Ohio law is four years. Any "tolling" of these statutes of limitations would involve presentation of evidence of each individual transaction, what each customer knew or should have known, and at what time s/he gained this knowledge.

filed their claims within the applicable statute of limitations for their claims. However, given their quest for a class action, plaintiffs have little incentive to emphasize the individual facts in each case that may allow putative class members to preserve their claims.

3. **The District Court Properly Held That a Class Action Would Not Serve the Purposes of Real Efficiency and Judicial Economy, as Individual Issues Predominate Over Common Factual or Legal Questions.**

The principal purpose of a class action is to achieve real efficiency and judicial economy. *Falcon*, 457 U.S. at 159. The requirement that "common" issues predominate over individual issues assures that the goal of judicial economy is served in fact, not just in theory. *In re American Med. Sys.*, 75 F.3d at 1085.

As plaintiffs' claims sound overwhelming in fraud, a core, factual issue in this litigation is whether each individual putative class member relied upon representations or failures to disclose and, if so, what damages proximately resulted. *Burr v. Board of County Comm'rs of Stark County*, 23 Ohio St.3d 69, 73 (1986); *Black v. Cosentino*, 117 Ohio App.3d 40, 44 (1996). Issues of knowledge and reliance require individual proofs which limit class-wide treatment of fraud-based claims. Because reliance permeates plaintiffs' claims, individual issues predominate over common issues, thus rendering class certification inappropriate. *Andrews v. American Tel. & Tel. Co.*, 95 F.3d 1014, 1023-25, *reh'g denied*, 104 F.3d 373 (11th Cir. 1996); *Castano v. American Tobacco Co.*, 84 F.3d 734, 745 (5th Cir. 1996); *Mack v. GMAC*, 169 F.R.D. 671, 680 (M.D. Ala. 1996).

To the extent that plaintiffs' TILA claims raise any additional issues,[12] the district court also correctly determined that individual issues predominate over common issues, thus rendering class certification inappropriate. As a Michigan district court observed in denying class certification under similar circumstances:

> The nature of the VSC [vehicle service contract] present a major obstacle to the commonality requirement because unlike other types of charges, such as a "non-filing fee". . . which borrowers incur only because they are imposed by creditors, some purchasers may actually choose to purchase a VSC in order to minimize used car repair costs. For this reason, it does not automatically follow that a person who purchased a vehicle and a VSC from Cars on credit was required to purchase the VSC. In fact, the evidence submitted by Cars shows that in 1997, it sold 100 vehicles without service contracts.

Peters, *supra*, (cited at R. 45, at 11, n.6).

Any resolution of the putative class' TILA claims involve individual determinations as to: (1) what documents the customer reviewed; (2) the manner in which the documents were presented; (3) representations made to each individual customer; and (4) whether the customer selected

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[12] Plaintiffs' TILA claims are based upon defendants' alleged inclusion of the price of the extended service agreement into the finance charge without notifying customers that purchase of the extended service agreement was allegedly required for an extension of credit. Such claims, by their nature, involve similar issues to their fraud claims, *i.e.*, misrepresentations, reliance, and accompanying damages.

the extended service agreement or, as plaintiffs allege, was "tricked" into accepting the extended service agreement.

Accordingly, the district court properly held that class treatment was inappropriate as individual issues predominate over common issues among the putative class.

CONCLUSION

For the foregoing reasons, defendants-appellees, J.D. Byrider a.k.a. Docherty Motors, and T&J Acceptance Corporation d.b.a. CarNow Acceptance Corporation, respectfully urge this Court to affirm the rulings entered by the district court: (1) compelling arbitration of plaintiffs' claims; and (2) denying class certification pursuant to this Court's recent decision in *Green Tree Financial Corp. Alabama, et al. v. Randolph*, 2000 WL 1803919 at *1 (U.S. Dec. 1, 2000).

Respectfully submitted,

LOUIS PAISLEY (0017498)
GARY W. JOHNSON (0017482)
Weston Hurd Fallon Paisley & Howley, L.L.P.
2500 Terminal Tower
50 Public Square
Cleveland, OH 44113-2241
Telephone: (216) 241-6602
Facsimile: (216) 621-8369
Attorneys for Defendants-Appellees